BABCOCK & BROWN
WIND PARTNERS

Babcock & Brown Wind Partners Limited · ABN 39 105 051 616
Babcock & Brown Wind Partners Trust · ARSN 116 244 118
Babcock & Brown Wind Partners (Bermuda) Limited · ARBN 116 360 715
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ASX Release

26 September 2008

# AUDITED FULL YEAR 2008 FINANCIAL REPORT

Babcock & Brown Wind Partners (ASX: BBW) today advises that the full year 2008 group financial report has now been finalised. The financial reports for the Babcock & Brown Wind Partners Group and the Babcock & Brown Wind Partners Trust are attached and are also available on BBW's website (www.bbwindpartners.com).

The full year 2008 financial report for Babcock & Brown Wind Partners Group contains additional notes to the financial statements and the directors' report, which were not included in the unaudited financial statements released on 28 August 2008 with the Appendix 4E. Some minor amendments relating to the finalisation of the accounting treatment of certain US wind farms that were consolidated during FY08 have been included. These amendments resulted in the FY08 net profit increasing from $36.8 million to $39.8 million and net assets reducing from $1,137.8 million to $1,135.2 million. These amendments did not result in any change to net operating cash flow.

Further information in relation to the FY08 financial results are also contained in the separate updated investor presentation being also released today to reflect the finalised, audited full year 2008 financial report.

**ENDS**

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BABCOCK & BROWN
WIND PARTNERS

**About Babcock & Brown Wind Partners**

Babcock & Brown Wind Partners (ASX: BBW) is a global wind energy business which owns and operates a portfolio of wind farms spanning six countries and three continents. BBW listed on the Australian Stock Exchange on 28 October 2005 and has a market capitalisation of approximately A$1.1 billion.

BBW's portfolio comprises interests in 87 wind farms that have a total installed capacity of approximately 3,360MW and are diversified by wind resource, currency, equipment supplier, off take arrangements and regulatory regime. Once the sale of the Spanish wind energy assets reaches financial close, BBW's global wind energy business will span five countries and its wind farm portfolio will comprise interests in 73 wind farms with a total installed capacity of approximately 2,941MW.

BBW is managed by Babcock & Brown Wind Partners Management Pty Limited, a subsidiary of Babcock & Brown Limited (ASX: BNB), a global investment and advisory firm with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown has a long history of experience in the renewable energy field and has been a longstanding participant in the wind energy sector with 20 years experience. Babcock & Brown's roles have included acting as an adviser/arranger of limited recourse project financing, arranging equity placements, lease adviser, project developer, principal equity investor and fund manager for wind energy projects situated in Europe, North America and Australia. Babcock & Brown has developed specialist local expertise and experience in the wind energy sector in each of these regions which it brings to its roles as manager and financial advisor for BBW.

BBW's investment strategy is to grow Securityholder wealth through efficient management of its portfolio of wind energy generation assets.

BBW is a stapled entity comprising Babcock & Brown Wind Partners Limited (ABN 39 105 051 616), Babcock & Brown Wind Partners Trust (ARSN 116 244 118) and Babcock & Brown Wind Partners (Bermuda) Limited (ARBN 116 360 715).

For further information please visit our website: **www.bbwindpartners.com**

# BABCOCK & BROWN WIND PARTNERS

## ANNUAL FINANCIAL REPORT
## FOR THE YEAR ENDED 30 JUNE 2008

TOGETHER WITH THE DIRECTORS' REPORT

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# BBW corporate structure

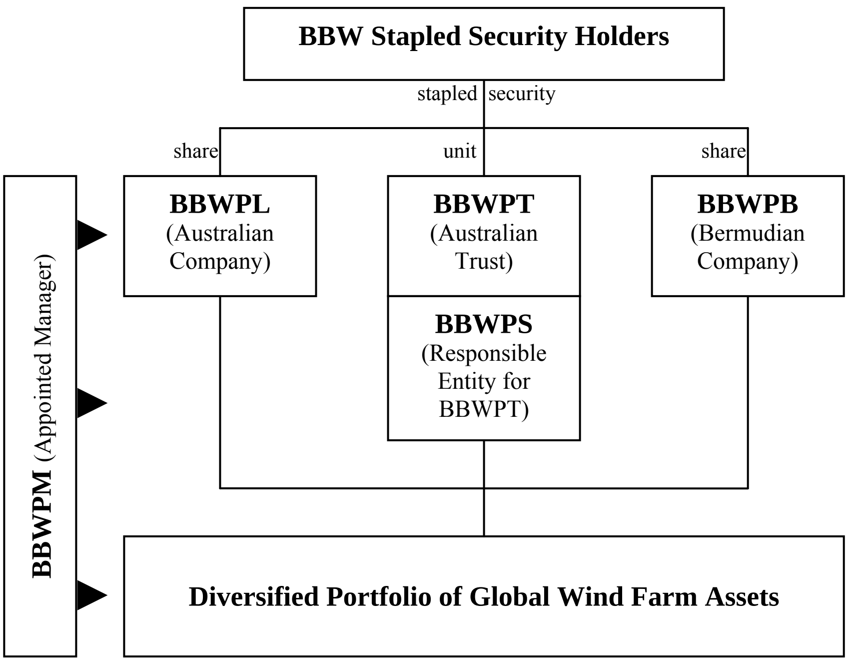
The Babcock & Brown Wind Partners Group (“**BBW**”) consists of the following entities:

- Babcock & Brown Wind Partners Limited (“**BBWPL**”), a public company incorporated in Australia;
- Babcock & Brown Wind Partners Trust (“**BBWPT**”), a managed investment scheme registered in Australia;
- Babcock & Brown Wind Partners (Bermuda) Limited (“**BBWPB**”), a company incorporated in Bermuda; and
- the subsidiary entities of BBWPL and BBWPT.

One share in each of BBWPL and BBWPB and one unit in BBWPT have been stapled together to form a single BBW stapled security, tradable on the Australian Securities Exchange.

Babcock & Brown Wind Partners Management Pty Ltd (“**BBWPM**”) is the Manager of BBW. Babcock & Brown Wind Partners Services Limited (“**BBWPS**”) is the Responsible Entity of BBWPT. BBWPM and BBWPS are wholly owned subsidiary entities of Babcock & Brown Limited (“Babcock & Brown”).

The following diagram provides an overview of BBW’s structure.



# Directors' report

In respect of the year ended 30 June 2008, the Directors submit the following report for Babcock & Brown Wind Partners Group (BBW).

## *Directors*

The names and particulars of the Directors of BBW during or since the end of the financial year are set out below.

| ***Name*** | ***Particulars*** |
|---|---|
| **<u>Peter Hofbauer</u>**<br>**(Babcock & Brown executive)**<br><br>**Chairman of BBWPL, BBWPB and BBWPS**<br><br>*Appointed to BBWPL on 11 June 2003*<br>*Appointed to BBWPB on 14 September 2005*<br>*Appointed to BBWPS on 14 April 2005* | Peter joined Babcock & Brown in 1989 and has worked in both the Sydney and London offices. He is currently based in London.<br>Peter is the Chief Investment Officer of the Babcock & Brown Group, and is also a director of Babcock & Brown Infrastructure Limited.<br>Prior to joining Babcock & Brown, Peter worked with Price Waterhouse and Westpac Project and Advisory Services Limited. Peter worked in the Sydney office of Babcock & Brown until early 1996 covering a range of business areas including large scale asset, property and tax based structured financing transactions. From 1996 until 2000 Peter worked in the London office of Babcock & Brown where he was responsible for establishing Babcock & Brown's European property and infrastructure principal finance group. This involved, amongst other things, the establishment and ongoing management of a wholesale investment fund for Babcock & Brown and its clients.<br>Peter has a Bachelor of Business from the Swinburne University. He is a member of the Institute of Chartered Accountants in Australia, the Taxation Institute of Australia and the Financial Services Institute of Australasia. |
| **<u>Anthony Battle</u>**<br>**Lead Independent Director of BBWPL, BBWPB and BBWPS**<br><br>*Appointed to BBWPL on 9 September 2005*<br>*Appointed to BBWPB on 14 September 2005*<br>*Appointed to BBWPS on 9 September 2005* | Anthony (Tony) Battle gained extensive experience in the banking and finance industry over a period of more than 30 years. During this time he held various executive management, credit committee and director roles with major international and domestic financial institutions. His experience includes the evaluation and funding of numerous major project, structured and corporate financings across a wide range of industry sectors.<br>Tony holds a Bachelor of Commerce degree, is a Fellow of the Australian Institute of Company Directors and an Associate of Chartered Secretaries Australia.<br>Tony is based in Melbourne. |
| **<u>Douglas Clemson</u>**<br>**Independent Director of BBWPL, BBWPB and BBWPS**<br><br>*Appointed to BBWPL on 9 September 2005*<br>*Appointed to BBWPB on 14 September 2005*<br>*Appointed to BBWPS on 9 September 2005* | Doug Clemson is the former Finance Director and CFO of Asea Brown Boveri (ABB) where he was responsible for the corporate and project finance needs of the ABB group in Australia and New Zealand. He was instrumental in the establishment of the activities of ABB Financial Services and its participation in the co-development, construction and funding of important power generation, transportation and infrastructure projects in this region.<br>Prior to joining ABB, Doug held senior line management and finance executive positions with manufacturing groups, ACI and Smiths Industries. He is the recent chairman of Redbank Power and director of Powerco NZ. His previous directorships include General and Cologne Reinsurance, Electric Power Transmission Group, ABB Australia, and New Zealand, and Smiths Industries.<br>Doug is a qualified accountant and a Fellow of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors. Doug is based in Sydney. |

| | |
|---|---|
| **<u>Nils Andersen</u>**<br>**Independent Director of BBWPS**<br><br>*Appointed to BBWPS on 9 September 2005* | Nils Andersen worked at Vestas, the Danish wind turbine manufacturer, for over 20 years. Nils was managing director of Vestas-Australia throughout 2003 and 2004, and in this role Nils was also responsible for sales and marketing in the Pacific Region and South Africa.<br>Nils started his career with Vestas as the export manager, responsible for market development worldwide and with a special focus on Indian sub-continent and Asia-Pacific countries. He subsequently held a number of management positions in sales and market development reporting to the CEO and then the board. Nils also held a number of board positions within the Vestas group of companies, and his experience expands across the globe.<br>Nils has also held industry positions such as export trade and international development councils and between 1994 and 1998 he was the vice-president of the European Wind Industry Association. Prior to joining Vestas, Nils worked for FL Smidth (a leading manufacturer in cement plants based in Denmark) in Brazil, South Africa and Denmark.<br>Nils holds a Bachelor of Engineering degree and is a mechanical engineer by training. Nils is based in Denmark. |
| **<u>Warren Murphy</u>**<br>**(Babcock & Brown executive)**<br><br>**Director of BBWPL, BBWPB and BBWPS**<br><br>*Appointed to BBWPL on 24 November 2003*<br>*Appointed to BBWPB on 14 September 2005*<br>*Appointed to BBWPS on 14 April 2005* | Warren Murphy is Head of Australian Energy in the Infrastructure group at Babcock & Brown, based in the Sydney office. Warren has led the development of Babcock & Brown's energy sector capability in Australia and New Zealand. He is also a director of the ASX listed Sydney Gas Limited.<br>Warren has led the development of Redbank, Oakey, NewGen Kwinana, Braemar and Uranquinty power stations, and the co-development of a number of renewable energy projects, including the Alinta, Lake Bonney and Capital wind farms. Warren joined Babcock & Brown in 1997. Prior to joining Babcock & Brown, Warren was a director of the project finance division of AIDC and before that worked at Westpac Banking Corporation.<br>Warren holds a Bachelor of Engineering (Hons) and a Bachelor of Commerce in Accounting and Economics. |
| **<u>Michael Garland</u>**<br>**(Babcock & Brown executive)**<br>**Alternate Director for Peter Hofbauer and Warren Murphy on BBWPL, BBWPB and BBWPS Boards**<br><br>*Appointed to BBWPL, BBWPB and BBWPS on 8 May 2007* | Michael Garland manages the US Infrastructure team of Babcock & Brown.<br>Prior to joining Babcock & Brown in 1986, Michael was a director of the State of California Energy Assessments Office where he was responsible for the implementation of the State Government's environmental and energy policies. Michael also coordinated and oversaw certain design, construction, financing and operations relating to the California State energy facilities.<br>Michael is a graduate of the University of California at Berkeley. Michael is based in San Francisco. |
| **<u>Antonino Lo Bianco</u>**<br>**(Babcock & Brown executive)**<br>**Alternate Director for Warren Murphy and Peter Hofbauer on BBWPL, BBWPB and BBWPS Boards**<br><br>*Appointed to BBWPL, BBWPB and BBWPS on 8 May 2007* | Antonino Lo Bianco manages the European Infrastructure team of Babcock & Brown.<br>Prior to joining Babcock & Brown in 1993, Antonino worked with Nomura International plc as a member of its Italian Corporate Finance Group.<br>Antonino is a graduate in Business Administration from Bocconi University in Milan. Antonino is based in Milan. |

## *Company Secretaries*

The names and particulars of the company secretaries of BBW during or since the end of the financial year are set out below.

| ***Name*** | ***Particulars*** |
|---|---|
| **<u>David Richardson</u>**<br>**Company Secretary of BBWPL, BBWPB and BBWPS**<br><br>*Appointed 26 October 2005* | David Richardson joined Babcock & Brown in 2005 as Company Secretary for a number of the Specialised Funds and is principally responsible for the company secretarial function and corporate governance requirements of Babcock & Brown Wind Partners.<br>Prior to joining Babcock & Brown, David was a Company Secretary within the AMP Group, and at various stages was appointed Company Secretary for the AMP Capital Investors, Financial Services and Insurance divisions.<br>David holds a Diploma of Law, Bachelor of Economics and a Graduate Diploma in Company Secretarial Practice. David is a Member of Chartered Secretaries Australia. |
| **<u>John Remedios</u>**<br>**Company Secretary of BBWPL, BBWPB and BBWPS**<br><br>*Appointed 28 June 2007* | John Remedios joined Babcock & Brown in November 2006 and is principally responsible for the company secretarial function and corporate governance requirements of Babcock & Brown Power.<br>Prior to joining Babcock & Brown, John was a Senior Legal Counsel for AMP Capital Investors and held various company secretarial positions including Company Secretary of AMP Life Limited and Assistant Company Secretary of AMP Limited.<br>John holds Bachelor of Economics and Bachelor of Law (Hons.) degrees from the University of Sydney and is a Member of the Law Society of New South Wales. |

## *Former partners of the audit firm*

No current Directors or Officers of BBW have been Partners of PricewaterhouseCoopers at a time when that firm has been the auditor of BBW.

## *Principal activities*

BBW's principal activities include:

- managing its current portfolio of wind energy generation assets; and
- identifying acquisition or divestment opportunities for wind energy generation assets to grow securityholder wealth.

To participate in acquisition and divestment opportunities, BBW utilises its relationship with Babcock & Brown and develops other strategic alliances with wind energy generation development companies.

## *Review of operations*

A review of the operations of BBW and the results of those operations for the year ended 30 June 2008 is included in the attached Financial Statements and accompanying Notes.

## *Changes in state of affairs*

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the Financial Statements and accompanying Notes.

## *Subsequent events*

*Sale of Spanish Assets*

On 21 August 2008, BBW agreed to sell its portfolio of operating Spanish wind energy assets with an installed capacity of 420.7MW to Formento de Construcciones y Contratas, S.A. The sale is subject to local authority consents in Spain, which are expected to take approximately three months, with financial close occurring thereafter.

*Proposed New Chairman*

On 26 August 2008, Mr Peter Hofbauer, Chairman of the BBWPL, BBWPB and BBWPS Boards, advised each of these Boards of his intention to step down as a Director upon a new independent Chairman being appointed to these Boards. Each of the Boards confirmed that it is their intention to replace Mr Hofbauer with a Babcock & Brown executive once the new independent Chairman is appointed. As at the date of this report, the new independent Chairman has not yet been appointed.

*Proposed Buy-back of Stapled Securities*

On 16 September 2008, BBW announced that it would be undertaking an on-market buy-back of up to 10% of its securities over a period of 12 months.

## *Future developments*

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## *Environmental regulations*

To the best of their knowledge and belief after making due enquiry, the Directors have determined that BBW has complied with all significant environmental regulations applicable to its operations.

## *Distributions*

An interim distribution of 7.25 cents per stapled security for the half year to 31 December 2007 was paid on 18 March 2008. BBW will also pay a final distribution of 7.25 cents per stapled security for the full year to 30 June 2008 on or about 18 September 2008. Further details regarding the distributions paid by BBW are set out in Note 23 to the Financial Statements.

## *Indemnification and insurance of Officers*

BBW has agreed to indemnify all Directors and Officers against losses incurred in their role as Director, Alternate Director, Secretary, Executive or other employee of BBW or its subsidiaries, subject to certain exclusions, including to the extent that such indemnity is prohibited by the *Corporations Act 2001* or any other law. The agreement stipulates that BBW will meet the full amount of any such liabilities costs and expenses (including legal fees). BBW has not been advised of any claims under any of the above indemnities.

During the financial year BBW paid insurance premiums for a Directors' and Officers' liability insurance contract, that provides cover for the current and former Directors, Alternate Directors, Secretaries and Executive Officers of BBW and its subsidiaries. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

### *Directors' security holdings*

Below are the Directors' and Alternate Directors' relevant interests in BBW stapled securities throughout the financial year.

| | Balance 1 July 2007 | Acquired during the year | Sold during the year | Balance 30 June 2008 |
|---|---|---|---|---|
| P Hofbauer | 3,421,874 | 147,379 | 0 | 3,569,253 |
| A Battle | 32,316 | 5,318 | 0 | 37,634 |
| D Clemson | 140,000 | 0 | 0 | 140,000 |
| N Andersen | 11,109 | 585 | 0 | 11,694 |
| W Murphy | 2,033,708 | 372,533 | 0 | 2,406,241 |
| M Garland[1] | 2,142,000 | 0 | 0 | 2,142,000 |
| A Lo Bianco[1] | 2,142,000 | 0 | 0 | 2,142,000 |

[1] Alternate Directors.

## *Remuneration Report*

**SPECIALISED FUND PLATFORM**

Babcock & Brown through a wholly owned subsidiary manages Babcock & Brown Wind Partners (**BBW**) under a long term Management Agreement in return for a management fee. Under the terms of the BBW Management Agreement, Babcock & Brown Wind Partners Management Pty Ltd (the **Manager**) provides management services and a management team which comprises Babcock & Brown employees who are seconded by Babcock & Brown to the Manager on either a full or part-time basis in relation to the management of BBW (the **Management Executives**). These employees are remunerated in accordance with Babcock & Brown's remuneration policies. Accordingly, this Remuneration Report details the philosophy and framework currently applicable to the Babcock & Brown Group (**B&B Group**).

The following matters should be noted in understanding the Management Agreement arrangements:

- Babcock & Brown meets the costs of employment (including bonuses) of the Management Executives as these remuneration costs are a category of expenses under the Management Agreements that are **not** separately recoverable from BBW.
- The recovery of expenses by the Manager (including the remuneration of the Management Executives) is capped in accordance with the Management Agreements, and is subject to periodic review by the Independent Directors.

The following matters should be noted in understanding how the Management Executives dedicated to BBW are remunerated and the alignment of their remuneration to the performance of BBW and Babcock & Brown:

- As employees of Babcock & Brown, the Management Executives are remunerated on a calendar year basis with annual incentive remuneration payments made in March/April each year following the previous 31 December financial year end of Babcock & Brown.
- The remuneration of Management Executives consists of 3 components:
  - fixed remuneration: a cash salary and statutory entitlements including superannuation;
  - Short Term Incentives (**STI**): a cash bonus, Bonus Deferral Rights, and Share Awards (refer below for further details); and
  - Long Term Incentives (**LTI**): performance-based Options which are subject to various hurdle requirements as described below.
- Where a Management Executive is directly and solely involved in the management of BBW, 50% of any Bonus Deferral Right allocation will be invested in Babcock & Brown Bonus Deferral Rights and the remaining 50% in BBW Bonus Deferral Rights.

- Subject to vesting arrangements and no disqualifying events, Bonus Deferral Rights vesting commences at year four after allocation.
- Total remuneration of Management Executives includes LTI of between 20% and 50% which is aligned to the security price of both BBW and Babcock & Brown.
- Accordingly, the LTI component of the total remuneration disclosed in this Remuneration Report:
  - is the remuneration paid for the performance of the Management Executive during the 12 months ending 31 December 2007 (due to the Babcock & Brown remuneration policy having a calendar year basis); and
  - includes deferred equity components issued at prevailing prices as at their respective grant date in April 2008 (ie. TSR Hurdled Options were issued at a strike price of $12.95 per security).
- The ultimate value of the LTI components of the Management Executives' total remuneration is linked to the share price of Babcock & Brown. There has been significant volatility in share markets globally and Babcock & Brown has not been immune to this volatility with the closing share price on 22 August 2008 being $2.48. The reduction in the value of awards allocated to the Management Executives has reduced the effective compensation paid to the executives. Also, as noted above, the LTI components of the Management Executives' remuneration do not vest for four years.
- The financial impact of the change in share and security prices (leading to a decrease in value of total remuneration for 2008) for Management Executives that were key management personnel during the financial year (**BBW Executives**) is highlighted in the table below:

| | | Short-term employee benefits | | | | Post-employment benefits | Other long-term employee benefits | Share based payments[2] | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **BBW Executive[1]** | **Year** | **Salary** | **STI Plan relating to current period** | **Non-monetary benefits** | **Total of short-term employee benefits** | **Super-annuation** | **Long Service Leave** | **Equity settled** | **Cash settled** | **Total** |
| | | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| M George | **2008[3]** | **316,250** | **446,600** | **-** | **762,850** | **13,129** | **5,271** | **1,010,026** | **28,470** | **1,819,746** |
| | 2008[4] | 316,250 | 446,600 | - | 762,850 | 13,129 | 5,271 | 216,959 | 21,482 | 1,019,691 |
| G Dutaillis | **2008[3]** | **311,000** | **350,000** | **-** | **661,000** | **13,129** | **5,183** | **245,755** | **5,869** | **930,936** |
| | 2008[4] | 311,000 | 350,000 | - | 661,000 | 13,129 | 5,183 | 27,075 | 4,429 | 710,816 |
| G Dover | **2008[3]** | **311,000** | **350,000** | **-** | **661,000** | **13,129** | **5,183** | **174,839** | **5,869** | **860,020** |
| | 2008[4] | 311,000 | 350,000 | - | 661,000 | 13,129 | 5,183 | 26,952 | 4,429 | 710,693 |
| D Richardson | **2008[3]** | **170,600** | **157,800** | **-** | **328,400** | **13,129** | **2,843** | **15,529** | **0** | **359,901** |
| | 2008[4] | 170,600 | 157,800 | - | 328,400 | 13,129 | 2,843 | 0 | 0 | 344,372 |
| Total | 2008[3] | 1,108,850 | 1,304,400 | - | 2,413,250 | 52,516 | 18,480 | 1,446,149 | 40,208 | 3,970,603 |
| Total | 2008[4] | 1,108,850 | 1,304,400 | - | 2,413,250 | 52,516 | 18,480 | 270,986 | 30,340 | 2,785,572 |
| **Remuneration Value Decrease[5]** | | **0** | **0** | **-** | **0** | **0** | **0** | **1,175,163** | **9,868** | **1,185,031** |

1 These are the BBW Executives who received the highest emoluments in the year ended 30 June 2008.
2 Share-based payments includes LTI Plan options and Bonus Deferral Rights.
3 These amounts are based on the allocation prices of each component of deferred compensation as at Grant Date on 21 April 2008.
4 These amounts are based on the closing price of Babcock & Brown shares as at 22 August 2008.
5 Decrease in value of remuneration components from Grant Date on 21 April 2008 to 22 August 2008.

**CHANGES IN 2007/8**

The Babcock & Brown Board (**B&B Board**) decided to include the value of Long Term Incentive (LTI) grants as a formal part of total annual remuneration for qualifying employees. In previous years, allocations were generally made to new hires and not widely awarded as a number of the more long-standing employees had received Babcock & Brown pre-IPO Options which vest in August 2008. With those vesting in August 2008, the B&B Board decided to introduce the allocation on a formal and more systematic basis.

The B&B Board also restructured the composition of incentive remuneration for 2007/8. As part of its commitment to the ongoing development of the remuneration structure it made some more permanent changes and refinements as well as introducing some one-time components for 2007/8. The one-time components were designed to take account of the current volatility in capital markets which, particularly since 31 December 2007, have significantly impacted the share price of Babcock & Brown and the security prices of the Babcock & Brown Listed Managed Funds. The restructure aimed to balance the further alignment between employees and securityholders with the ongoing motivation and retention of employees.

A one-time change for 2007/8 includes providing **a significant portion of what otherwise would have been immediate Short Term Incentive (STI) cash bonus delivered as fully vested Share Awards[1] in Babcock & Brown.** This is to further align the interests of certain BBW Executives with those of securityholders in the more volatile capital markets.

The more permanent changes introduced during the year included:

- **the further refinement of the Executive Key Performance Indicator (KPI) framework:** This provides a robust link between BBW Executives' total annual remuneration and the achievement of BBW's strategic objectives;
- **the inclusion of the LTI[2] plan as a formal part of total annual remuneration** for BBW Executives. The LTI takes the form of performance-based options which represent 10% of a qualifying employee's total annual remuneration; and
- **the introduction of Fund Bonus Deferral Rights (Fund BDRs)[3]** for eligible employees who contribute to the performance of BBW. These are in addition to Babcock & Brown Bonus Deferral Rights (B&B BDRs) which have been awarded since Babcock & Brown's IPO in October 2004.

As a consequence of the above changes the structure of total annual remuneration for 2007/8 results in a **greater percentage of Executive total incentive remuneration being deferred**. The B&B Board believes that the increase in the deferred component of BBW Executives total incentive remuneration, and the greater alignment with the interests of the securityholders of BBW, further strengthens the executive remuneration framework.

Further information on the above, including details on the remuneration components, is set out in this report.

## REMUNERATION COMMITTEES

### Role of the Babcock & Brown Remuneration Committee

The Babcock & Brown Remuneration Committee (**B&B Remuneration Committee**) assists the B&B Board in achieving fairness and transparency in relation to remuneration issues whilst overseeing the remuneration and human resources policies and practices of the B&B Group. The B&B Remuneration Committee endeavours to ensure that the B&B Group's remuneration outcomes strike an appropriate balance between the interests of BBW's securityholders and rewarding and motivating the BBW Executives and employees. The B&B Remuneration Committee consists of five Directors, of which three are independent Non-executive Directors. Its members throughout 2007/8 were: Ian Martin (Chair), James Babcock, Phillip Green, Elizabeth Nosworthy and Michael Sharpe.

### BBW Nomination & Remuneration Committee

On behalf of the BBW Group, the BBWPL Board established a Nomination & Remuneration Committee (**BBW Remuneration Committee**) to assist the BBW Boards review and monitor the composition of the BBW Boards, the level of remuneration of the Directors, and periodically review the performance of the Directors and the key management personnel of the Manager. In relation to remuneration issues, the BBW Remuneration Committee also provided input to Babcock & Brown regarding the performance measures of the BBW Executives and the overall performance of those executives to assist in determining their annual remuneration. The members of the BBW Remuneration Committee are P Hofbauer, A Battle, D Clemson, N Andersen and W Murphy.

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1 A fully vested Share Award entitles a participant to a share in Babcock & Brown at no cost.
2 The LTI plan comprises performance-based Options whereby each Option entitles the participant to one share in Babcock & Brown upon vesting subject to achieving a performance hurdle and the payment of an exercise option.
3 Fund BDRs entitle the participant to a cash payment linked to the performance of Babcock & Brown Wind Partners at the end of a four year vesting period.

## EXECUTIVES

The following persons were BBW Executives[4] during the financial year:

| | |
|---|---|
| M George | Chief Executive Officer |
| G Dutaillis | Chief Operating Officer |
| G Dover | Chief Financial Officer |
| D Richardson | Company Secretary |

#### REMUNERATION POLICY & STRUCTURE

The B&B Board recognises that Babcock & Brown operates in a global market place and its success is ultimately dependent on its people. In light of this, Babcock & Brown aims to attract, retain and motivate highly-specialised and skilled employees from a global pool of talent who have the expertise to manage Babcock & Brown Wind Partners in the best interests of the securityholders of BBW.

The B&B Board determined that remuneration would be assessed under a total annual remuneration model consisting of fixed remuneration and incentive remuneration (STI and LTI). The amount of incentive remuneration is determined after Babcock & Brown's year-end (December) and is calculated as total annual remuneration approved by the B&B Board less fixed remuneration. Incentive remuneration is then allocated between the STI and LTI components in accordance with the criteria set out in further detail in this report.

#### OPERATION OF TOTAL ANNUAL REMUNERATION

The process for determining the 2007/8 total annual remuneration allocation for BBW Executives is outlined below.

**Step 1: Early in the 2007/8 financial year, the BBW Remuneration Committee agreed KPIs for the BBW Executives to establish criteria for assessing performance in determining their final total annual remuneration amount in early 2008.**

KPIs for the BBW Executives were further refined during 2007/8 to further align their interests and behaviours with those of BBW's securityholders. On a calendar year basis, each individual's performance is assessed against their KPIs to establish their final total annual remuneration.

There are three sets of KPIs. The first set focuses BBW Executives on outstanding role modelling of the B&B Group's and BBW's core values through:

- working together to maximise the short and long-term performance of the entire B&B Group for shareholders, investors in managed funds, clients and employees;
- attracting, developing, motivating and retaining the best people to build, lead and sustain Babcock & Brown's and BBW's businesses; and
- enhancing and protecting Babcock & Brown's and BBW's unique assets and source of competitive advantage – people, relationships, capital and reputation.

The second set focuses BBW Executives contribution to the generation of short and long term profitability of BBW.

The third set focuses on the generation of long-term profitability of BBW. Longer term measures include each individual's direct contribution to the performance of BBW.

The approach adopted for determining total incentive remuneration in 2007/8 has evolved from the historical approach used when Babcock & Brown operated as a private global partnership prior to its IPO in 2004. Annual bonuses were previously determined predominantly by the individual's contribution to the financial performance of their relevant business unit during the year. The B&B Board believe that Babcock & Brown's refined KPI framework builds on the already strong emphasis on the link between employee, Babcock & Brown and Fund performance by also linking reward to non-financial capabilities such as the attraction, development and retention of talent. This is because these capabilities also

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[4] These persons are employed by Babcock & Brown Australia Pty Limited.

contribute to the performance of the B&B Group and the Funds, as well as the ongoing sustainable value of Babcock & Brown and the Funds.

**Step 2: Independent Directors who are members of the BBW Remuneration Committee provided input to Babcock & Brown on the performance of the BBW Executives to assist in determining the preliminary total annual remuneration allocation amount.**

The recommendations for the BBW Executives were determined based upon their relative performance assessed in accordance with the KPIs outlined above in Step 1.

**Step 3: The B&B Corporate Management Committee established individual allocations from the total incentive remuneration allocation amount and made recommendations to the B&B Remuneration Committee.**

The preliminary B&B Group 2007 year-end results and the preliminary Return on Net Equity (ROE), EPS growth and Profit Before Bonus & Tax (PBBT) for the year were established. Subject to final results, a preliminary total annual remuneration amount was determined by reference to the target measures and with regard taken for the total annual remuneration as a proportion of net revenue guideline.

Allocations to individuals were determined by the B&B Corporate Management Committee, and then recommended to the B&B Remuneration Committee.

The recommendations for the BBW Executive were determined based upon their relative performance assessed in accordance with the KPIs outlined above in Step 1. The objective of the KPI approach is not only to incentivise the BBW Executives to achieve their own KPIs which are aligned to BBW's objectives, but also to provide a basis for a rigorous discussion around their performance and relative ranking. A 360 degree performance review feedback process was also introduced for senior B&B Executives for the purposes of personal development and to assess performance against the KPIs relating to the role modelling of the core values of Babcock & Brown. It is the intention to expand this to a broader group of senior executives during 2008 including BBW Executives.

**Step 4: Independent members of the B&B Remuneration committee established recommendations to the B&B Board for the total annual remuneration allocation amount and total annual remuneration recommendations for BBW Executives.**

The independent members of the B&B Remuneration Committee recommended to the B&B Board the total annual remuneration amount after the B&B Group 2007 year end results were finalised and the ROE, EPS growth and PBBT for the year were established. The recommendations for BBW Executives were established after reviewing their performance against their KPIs as set out in Step 1 and taking into account the views of the BBW Remuneration Committee and the B&B Corporate Management Committee.

#### SUMMARY OF INCENTIVE PLANS

#### SHORT-TERM INCENTIVE (STI) PLAN

All employees are eligible to participate in the STI plan. The B&B Board's policy is to allocate at least 25% of an employee's STI award above a threshold level to a grant of Bonus Deferral Rights (**BDRs**) with the balance paid in cash. In 2007/8, the B&B Board allocated 30% of an employee's STI award above A$350,000 to a grant of BDRs. BDRs take the form of B&B BDRs and Fund BDRs (each further described below). The threshold level and allocation percentage are subject to annual review.

All short-term incentives below the threshold level are generally delivered entirely as cash. However, to encourage increased employee share ownership levels and a greater alignment of interests between employees, B&B shareholders and BBW securityholders, certain employees can voluntarily sacrifice up to 100% of their discretionary STI into Voluntary Bonus Deferral Rights (**Voluntary BDRs**). Only employees in locations where the tax regime allows deferral are eligible to participate in the Voluntary BDR Plan.

Given the significant impact, particularly since 31 December 2007, of the volatile equity markets on the market price of Babcock & Brown shares and a number of B&B Listed Managed Funds securities, the B&B Board considered that increased alignment and incentives would give shareholders in Babcock & Brown and securityholders in the Babcock & Brown Listed Managed Funds added comfort that BBW Executives would be focused and rewarded for achieving improved B&B share and BBW security price performance. Therefore, the B&B Board introduced some one-time components into the 2007/8 STI structure for these employees. A significant portion of what would have been an immediate STI cash payment was allocated into forms of remuneration designed to further increase alignment. One of these new components for 2007/8 related to the issuing of fully vested Share Awards instead of a proportion of STI cash payments. These Share Awards entitle the participant to a share in Babcock & Brown when exercised. The grant of Share Awards occurred in April 2008, with half of the Share Awards exercisable from August 2008 and the remaining half exercisable from February 2009.

The following tables provide further information on the various equity and equity-based components of STI in 2007/8.

#### SHARE AWARDS

The nature, eligibility and general terms of the Share Awards are outlined in the table below.

| | |
|---|---|
| **Nature** | Each fully vested Share Award entitles the participant to one share in Babcock & Brown at no cost. Fifty percent of the Share Awards are exercisable from August 2008 and the remaining 50% from February 2009. |
| **Eligibility** | All employees who have total short-term incentive remuneration of more than $200,000. |
| **Quantum of Share Awards to be allocated** | The number of Share Awards granted is determined by dividing the amount of the Share Award allocation by the market value of Babcock & Brown shares at the time the Share Awards are granted. The grant of Share Awards occurred in April 2008. |
| **Entitlement and treatment of dividends** | Each Share Award is backed by a Babcock & Brown share either issued to or acquired by the Babcock & Brown Australian Incentive Trust or the Babcock & Brown Executive Achievement Share Trust, as applicable. Dividends received on these shares, less trust expenses and taxes as determined by the Trustee, will be applied towards acquiring additional Babcock & Brown shares (Dividend Reinvestment Plan (DRP) Shares). Any DRP Shares will also hold entitlements to future dividends, which will be treated in the same way.<br>The DRP Shares will be held by the Trust until the time the Share Awards are exercised. Once the Share Awards have been exercised, the employee is entitled to receive dividends on their shares, similar to any other Babcock & Brown shareholder. |

#### BABCOCK & BROWN BONUS DEFERRAL RIGHTS (B&B BDRS)

B&B BDRs are designed to further align the interests of employees, B&B shareholders and BBW securityholders and act as a retention mechanism. The nature and general terms of the B&B BDRs are outlined in the table below.

| | |
|---|---|
| **Nature** | Each B&B BDR entitles the participant to one share in Babcock & Brown at no cost after a four year vesting period. |
| **Eligibility** | If the participant only contributes to Babcock & Brown, and receives an STI award above the threshold level, they will receive all of their BDR allocation in B&B BDRs.<br>If the participant makes a contribution to both Babcock & Brown and as an Executive of a Babcock & Brown Listed Managed Fund(s), and receives an STI award above the threshold level, they may receive 50% of their BDR allocation as B&B BDRs and the remaining 50% in Fund BDRs (see below). |
| **Quantum of B&B BDRs to be allocated** | The number of B&B BDRs granted is determined by dividing the amount of the B&B BDR allocation by the market value of Babcock & Brown shares at the time the B&B BDRs are granted. The B&B BDRs were granted to BBW Executives during April 2008. |
| **Entitlement and treatment of dividends** | A dividend/distribution equivalent (less any applicable deductions and withholdings) based on the Funds in the notional investment will be paid periodically to participants. |
| **Forfeiture conditions of the B&B BDRs and DRP Shares** | Any participant leaving the B&B Group may forfeit their B&B BDRs and DRP Shares if they terminate employment within the four year vesting period, unless the B&B Board exercises its discretion in certain circumstances, such as redundancy or retirement. The B&B Board also reserves the right to allow vesting in other circumstances which would include a participant leaving Babcock & Brown to pursue other interests which the B&B Board is satisfied will not compete with the B&B Group. |

#### FUND BONUS DEFERRAL RIGHTS (FUND BDRS)

The B&B Board believes that the B&B Managed Funds are central to B&B's long term strategy and business model. During 2007/8, the B&B Board introduced Fund BDRs to further align eligible employees' interests with those of BBW's securityholders. The nature, eligibility and general terms of the Fund BDRs are outlined in the table below.

| | |
|---|---|
| **Nature** | Each Fund BDR entitles the participant to a cash payment, linked to the performance of the applicable B&B Listed Managed Fund (reflected by the market price movement plus income reinvestment of the relevant Babcock & Brown Listed Managed Fund's securities, less any applicable withholdings) at the end of the four year vesting period. If the employee contributed to more than one Fund, the amount to be delivered in Fund BDRs will be allocated equally between the various Babcock & Brown Listed Managed Funds to which they make a contribution. |
| **Eligibility** | If the employee only contributes to Babcock & Brown they are not eligible to receive Fund BDRs.<br>If the employee makes a contribution to both Babcock & Brown and a Babcock & Brown Listed Managed Fund(s), and receives an STI award above the threshold level, they may receive 50% of their BDR allocation in B&B BDRs and the remaining 50% in Fund BDRs. |
| **Quantum of Fund BDRs to be allocated** | Similar to the B&B BDRs, the number of Fund BDRs granted is determined by dividing the amount of the Fund BDR allocation by the market value of the applicable Babcock & Brown Listed Managed Fund's securities at the time the Fund BDRs are granted. The Fund BDRs were granted to BBW Executives during April 2008. |
| **Entitlement to dividends / distributions** | Any dividends/distributions paid during the vesting period are included in the calculation to determine the cash payment that will be paid to the participant at the end of the vesting period. No actual dividends/distributions are received by the participant as the Fund BDRs are not backed by equity in the applicable Fund. |
| **Forfeiture Conditions** | Any participant leaving the B&B Group may forfeit their Fund BDRs and DRP Shares if they terminate employment within the four year vesting period, unless the B&B Board exercises its discretion in certain circumstances, such as redundancy or retirement. The B&B Board also reserves the right to allow vesting in other circumstances which would include a participant leaving Babcock & Brown to pursue other interests which the B&B Board is satisfied will not compete with the B&B Group. |

As short-term incentive allocations are determined after the end of B&Bs financial year and are directly dependent on the B&B Group's financial performance, employees are not able to be advised of a target STI amount. Accordingly, Babcock & Brown cannot specify the percentage of the BBW Executives' target STI that was paid and forfeited during the financial year.

#### LONG-TERM INCENTIVE (LTI) PLAN

Prior to 2007, the LTI plan was not used as a formal part of employee total annual remuneration due to the B&B equity that was issued subject to escrow and the B&B pre-IPO options that were granted. Given that all remaining B&B equity subject to escrow was released from escrow in February 2008 and the B&B pre-IPO options vest in August 2008, the B&B Board introduced the LTI plan as a formal component of total annual remuneration for BBW Executives.

This change was introduced to maintain the long-term alignment with Babcock & Brown shareholders and the security-holders in the Babcock & Brown Listed Managed Funds and provide a mechanism for these individuals to share in the growth of Babcock & Brown. While LTI existed in previous years, it was allocated to a more limited number of BBW Executives and employees. Typically 10% of total annual remuneration were delivered as LTI awards to eligible employees in 2007. LTI awards will generally take the form of performance-based Options.

The nature, eligibility and general terms of performance-based Options are outlined in the table below.

| | |
|---|---|
| **Nature** | Each performance-based Option entitles the participant to one share in Babcock & Brown upon vesting subject to the payment of an exercise price. The exercise price of each Option will generally be based on the market value of shares at the time of grant. |
| **Eligibility** | All employees who have total annual remuneration which is more than double fixed remuneration and have total annual remuneration which is in excess of $250,000. |
| **Quantum of performance-based Options to be granted** | The number of performance-based Options to be granted is determined by dividing the amount of the LTI allocation by the value of the performance-based Option at the time they are granted. The performance-based Options were granted to BBW Executives and other employees during April 2008. |
| **Vesting and performance period** | The B&B Board's policy on the terms of vesting of LTI awards will typically include vesting at least three years after grant subject to the achievement of a performance hurdle. Performance-based Options to be granted for 2007 will have a three and a half-year vesting period, subject to achievement of a relative Total Shareholder Return (TSR) hurdle. |
| **Performance Hurdle** | The relative TSR hurdle set by the Board measures Babcock & Brown's TSR performance against all other ASX 100 index companies as at the date of grant measured over the three and a half year vesting period. The B&B Board has chosen Relative TSR ranking as the performance hurdle for the LTI awards because this hurdle ensures the greatest alignment between executive reward and the creation of shareholder value. By using ASX 100 index companies as the peer group, Babcock & Brown ensures that BBW Executives and other senior executives will only be rewarded when Babcock & Brown's TSR has exceeded the median of the broader Australian market. LTI awards will vest in accordance with the following: |

| Percentile | Percentage of Options that vest |
|---|---|
| Below 51st percentile | Nil |
| 51st to 74th percentile | Progressive vesting on a straight line basis from 50 to 99% |
| At or above 75th percentile | 100% |

The B&B Remuneration Committee has determined that it is appropriate to retest performance 12 months after the initial test date (i.e. after 4.5 years) for the 2008 grants if they are not fully vested at the initial test date (i.e. after 3.5 years).

The B&B Remuneration Committee understands that some stakeholder and shareholder bodies are against more than one test date and conducted a review of the testing mechanism during 2006. After this review, and also because of the recent market volatility, the Remuneration Committee determined that it was appropriate to keep two test dates in place.

The reasons for this included that the impacts of long-term decision making may not be reflected over the first 3.5 years and that stock market volatility means that Babcock & Brown's share price on the first test date may not reflect its fundamental value on that day. In addition, Babcock & Brown believes that having two test dates still aligns BBW Executives and other senior executives interests with those of shareholders and security-holders because performance is tested over the entire 4.5 year period and therefore relative performance in the year following the first test date would need to be strong to make up for any underperformance over the first 3.5 years. BBW Executives and other senior executives are therefore only rewarded when shareholders are similarly rewarded.

To measure performance against the TSR performance hurdle Babcock & Brown's external remuneration advisor will obtain, for each company in the ASX 100 as at the grant date, the TSR over the performance period and then rank these companies by their TSR performance. Babcock & Brown's TSR will then be compared to the TSR of the companies in this peer group to determine its percentile ranking and the level of vesting that will occur. This analysis will then be presented to the B&B Remuneration Committee for approval. This method of assessment was chosen because it ensures independence when determining vesting levels.

| | |
|---|---|
| **Forfeiture Conditions** | Any participant leaving the B&B Group may forfeit their Options if they terminate employment within the 3.5 year vesting period, unless the B&B Board exercises its discretion in certain circumstances, such as redundancy or retirement. The B&B Board also reserves the right to allow vesting in other circumstances which would include a participant leaving Babcock & Brown to pursue other interests which the Board is satisfied will not compete with the B&B Group. |

The 2007/8 performance year was the first time that Options were used as a formal part of the executive remuneration framework. Accordingly, no information can be provided as yet on the percentage of Executive Option allocations that were vested or forfeited during the financial year.

**LINK BETWEEN REMUNERATION POLICY AND THE PERFORMANCE OF BBW**

Since listing in October 2005, BBW has:

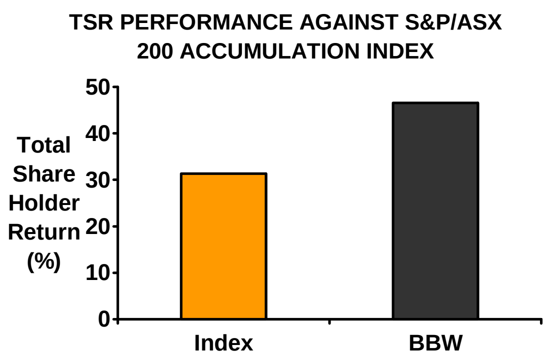
- generated total returns in excess of 39.1%, compared with the ASX 200 Accumulation Index of 31.4% over the same period[1];
- achieved an annualised return for all Securityholders of 13.1%[1];
- paid a total of 37.2 cents per security in distributions;
- grown total assets under management from $1.15 billion following listing[2] to $6.58 billion at 30 June 2008.

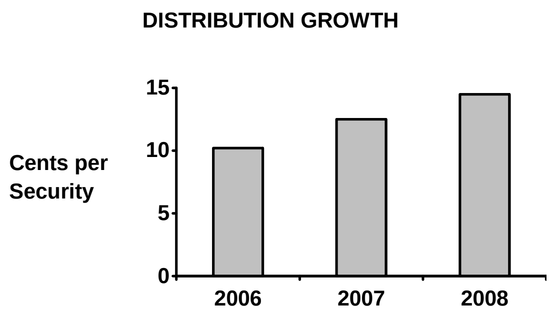
[1] Source: Bloomberg, period 28 October 2005 to 30 June 2008.
[2] Source: Pro Forma Balance Sheet as at 30 June 2005 adjusted following listing as stated on page 102 of the IPO Prospectus and Product Disclosure Statement, dated 26 September 2005.

Other relevant metrics for the financial year periods since listing are included in the table below.

| | 30 June 2006 | 30 June 2007 | 30 June 2008 |
|---|---|---|---|
| Closing security price | $1.51 | $1.95 | $1.645 |
| Revenue | $85.6m | $171.9m | $422.7m |
| EBITDA (from operations) | $64.6m | $126.5m | $333.7m |
| Net Operating Cash Flow | $34.2m | $87.8m | $188.8m |
| Distribution per fully paid security (cents per security) | 10.2 | 12.5 | 14.5 |
| Net assets per security | $1.16 | $1.10 | $1.12 |

The graphs below display BBW's TSR performance compared to the ASX 200 Accumulation Index and also the growth in distributions since listing to 30 June 2008.




Source: Bloomberg, period 28 October 2005 to 30 June 2008.

**TABLE 1: REMUNERATION OF THE BBW EXECUTIVES FOR THE YEARS ENDED 30 JUNE 2007 AND 2008**

Details of the nature and amount of each element of the emoluments of each BBW Executive of BBW for the years ended 30 June 2007 and 2008 are set out in the table below.

| BBW Executive[1] | Year | Short-term employee benefits | | | | Post-employment benefits | Other long-term employee benefits | Share based payments[2] | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary | STI Plan relating to current period | Non-monetary benefits | Total of short-term employee benefits | Super-annuation | Long Service Leave | Equity settled | Cash settled | |
| | | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| M George | **2008** | **316,250** | **446,600** | **-** | **762,850** | **13,129** | **5,271** | **1,010,026** | **28,470** | **1,819,746** |
| | 2007[3] | 131,250 | 829,250 | - | 960,500 | 6,343 | - | 194,089 | - | 1,160,932 |
| G Dutaillis | **2008** | **311,000** | **350,000** | **-** | **661,000** | **13,129** | **5,183** | **245,755** | **5,869** | **930,936** |
| | 2007 | 277,250 | 368,750 | - | 646,000 | 12,686 | - | 49,971 | - | 708,657 |
| G Dover | **2008** | **311,000** | **350,000** | **-** | **661,000** | **13,129** | **5,183** | **174,839** | **5,869** | **860,020** |
| | 2007[4] | 252,793 | 121,000 | - | 373,793 | 12,686 | - | 4,189 | - | 390,668 |
| D Richardson | **2008** | **170,600** | **157,800** | **-** | **328,400** | **13,129** | **2,843** | **15,529** | **0** | **359,901** |
| | 2007[5] | 121,934 | 106,960 | - | 228,894 | 12,686 | - | 2,234 | - | 243,814 |
| **Total remuneration for Executives** | **2008** | **1,108,850** | **1,304,400** | **-** | **2,413,250** | **52,516** | **18,480** | **1,446,149** | **40,208** | **3,970,603** |
| | 2007 | 783,227 | 1,425,960 | - | 2,209,187 | 44,401 | - | 250,483 | - | 2,504,071 |

1 These are the Executives who received the highest emoluments in the year ended 30 June 2008.
2 Share-based payments includes LTI Plan options, B&B Bonus Deferral Rights, Fund Bonus Deferral Rights and Share Awards.
3 Remuneration in FY07 for M George reflects the remuneration received since being appointed Chief Executive Officer on 1 January 2007.
4 Remuneration in FY07 for G Dover reflects the remuneration received since being appointed Chief Financial Officer on 21 August 2006.
5 Remuneration in FY07 for D Richardson is the remuneration received based on an assessment of the services performed directly for BBW.

**TABLE 2: REMUNERATION COMPONENTS AS A PROPORTION OF TOTAL REMUNERATION**

The below remuneration mix is based upon the above remuneration table which includes the amortisation of prior year unvested equity awards and the current year's amortisation for grants made in 2007/8.

| BBW Executive | Fixed remuneration[1] | Cash | Performance-based remuneration | | | | Total |
|---|---|---|---|---|---|---|---|
| | | | Share Awards | Fund Appreciation Rights | Bonus Deferral Rights[2] | Options | |
| | (%) | (%) | (%) | (%) | (%) | (%) | (%) |
| M George | 18.4 | 24.5 | 30.3 | 0 | 9.2 | 17.6 | 100 |
| G Dutaillis | 35.4 | 37.6 | 14.3 | 0 | 1.4 | 11.3 | 100 |
| G Dover | 38.3 | 40.7 | 15.5 | 0 | 1.4 | 4.1 | 100 |
| D Richardson | 51.8 | 43.9 | 0 | 0 | 0 | 4.3 | 100 |

1 Fixed Remuneration consists of salary, non-monetary benefits, superannuation and long service leave.
2 Bonus Deferral Rights refers to both B&B BDRs and Fund BDRs.

The above reward mix clearly illustrates Babcock & Brown's remuneration strategy of maintaining low base salaries and rewarding superior performance in achieving financial performance objectives as well as providing ongoing incentives to continue to achieve a high ROE, growing profits and strong security price performance.

#### TABLE 3: VALUE OF REMUNERATION THAT VESTS IN FUTURE YEARS

| BBW Executive | Remuneration subject to vesting[1] | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| | ($) | ($) | ($) | ($) | ($) |
| M George | 1,038,496 | 281,954 | 190,061 | 130,926 | 84,709 |
| G Dutaillis | 251,624 | 117,993 | 90,027 | 85,404 | 35,279 |
| G Dover | 180,708 | 47,077 | 47,077 | 47,077 | 28,996 |
| D Richardson | 15,529 | 15,529 | 15,529 | 15,529 | 7,001 |

1. Remuneration amounts disclosed in the above table refer to the maximum value of Options, B&B BDRs and Share Awards, where relevant. These amounts have been determined at grant date by using an appropriate pricing model and amortised in accordance with AASB 2 "Share Based Payment". The minimum value that may vest is $nil and no remuneration currently granted vests after 31 December 2012.

#### OUTSTANDING BABCOCK & BROWN SHARE AWARDS

Share Awards were granted to certain BBW Executives during April 2008 with the number to be granted based on the market price of Babcock & Brown's shares as at the grant date. The value per Share Award may be determined at the date of grant.

Upon exercise, the Share Awards entitle the holder to subscribe for one fully paid ordinary share in Babcock & Brown together with their related Dividend Reinvestment Shares and do not entitle the holder to participate in share issues made by Babcock & Brown. No exercise price is payable in relation to the Share Awards and no amounts will be paid, or payable by the recipient for the granting of these Share Awards. These Share Awards will be issued fully vested at the date of grant.

#### TABLE 4: TERMS AND CONDITIONS OF OUTSTANDING SHARE AWARDS

The table below provides the terms and conditions of outstanding Share Awards. Included in this table is an amount for Share Awards granted during April 2008 and valued as at the grant date.

| BBW Executive | Total Value | Exercisable from | |
|---|---|---|---|
| | | August 2008[1] | February 2009[2] |
| | ($) | (%) | (%) |
| M George | 551,595 | 50 | 50 |
| G Dutaillis | 133,631 | 50 | 50 |
| G Dover | 133,631 | 50 | 50 |

1. The Share Awards are exercisable from the date immediately following the results release to the ASX for Babcock & Brown for the half year ending 30 June 2008. These results were released to the ASX on 21 August 2008.
2. The Share Awards are exercisable from the date immediately following results release to the ASX for the B&B Group for the full year ending 31 December 2008 anticipated to be late February 2009.
3. The Share Awards expire 6 years from the date of grant.

#### OUTSTANDING BABCOCK & BROWN BONUS DEFERRAL RIGHTS (B&B BDRS)

Upon vesting, the B&B BDRs entitle the holder to subscribe for one fully paid ordinary share in Babcock & Brown together with their related Dividend Reinvestment Shares and do not entitle the holder to participate in share issues made by Babcock & Brown. No exercise price is payable in relation to the B&B BDRs and no amounts have been paid, or are payable by the recipient for the granting of these B&B BDRs. In relation to the BBW Executives in Table 5 below, no B&B BDRs vested, were exercised or lapsed during the year and all B&B BDRs held at 30 June 2008 are unvested and unexercisable. Unless indicated otherwise all B&B BDRs do not have an expiry date as they are automatically converted to Babcock & Brown shares upon vesting.

**TABLE 5: TERMS AND CONDITIONS OF OUTSTANDING B&B BONUS DEFERRAL RIGHTS**

The table below provides the terms and conditions of outstanding B&B BDRs. Included in this table is an amount for B&B BDRs granted during April 2008 and valued at the respective grant dates.

| BBW Executive | Granted Number | Grant date | Value per B&B BDR ($) | Total Value ($) | Vesting Date[1] |
|---|---|---|---|---|---|
| M George | 13,768 | 16/3/06 | 16.66 | 229,375 | 26/2/10 |
| | 12,728 | 9/3/07 | 25.30 | 322,018 | 24/2/11 |
| | 10,832 | 21/4/08 | 13.02 | 141,033 | 23/2/12 |
| G Dutaillis | 248 | 9/3/07 | 25.30 | 6,274 | 24/2/11 |
| | 2,233 | 21/4/08 | 13.02 | 29,074 | 23/2/12 |
| G Dover | 2,233 | 21/4/08 | 13.02 | 29,074 | 23/2/12 |

1 B&B BDRs granted in 2008 will vest following the release to the ASX of Babcock & Brown's full year results for the 2011 year, anticipated to be in late February 2012. B&B BDRs granted in 2007 will vest following the release to the ASX of Babcock & Brown's full year results for the 2010 year, anticipated to be in late February 2011. B&B BDRs granted in 2006 will vest following the release to the ASX of Babcock & Brown's full year results for the 2009 year, anticipated to be in late February 2010.

2 These B&B BDRs have an expiry date. B&B BDRs granted in 2008 expire 6 years from the grant date. B&B BDRs granted in 2007 expire on 9 March 2013. B&B BDRs granted in 2006 expire on 16 March 2012.

**OUTSTANDING FUND BONUS DEFERRAL RIGHTS**

The Fund BDRs represent 50% of the relevant BBW Executive's total BDR allocation. Upon vesting, the Fund BDRs entitle the holder to a cash payment linked to the performance of the applicable fund over the period from grant date to vesting date. No Fund BDRs vested, were payable or lapsed during the year and all Fund BDRs held at 30 June 2008 are unvested and unexercisable. No exercise price is payable in relation to the Fund BDRs.

**TABLE 6: TERMS AND CONDITIONS OF OUTSTANDING FUND BONUS DEFERRAL RIGHTS**

The grant date for these Fund BDRs was 10 April 2008 with the number granted based on the 5-day volume weighted average price of Fund's securities prior to the grant date. The Fund BDRs vest following the release to the ASX of Babcock & Brown's full year results for the 2011 year, anticipated to be in late February 2012. The Fund BDRs are valued as at the grant date.

| BBW Executive | Total value of Fund BDRs ($) |
|---|---|
| M George | 142,350 |
| G Dutaillis | 29,347 |
| G Dover | 29,347 |

**OUTSTANDING OPTIONS**

The table below outlines the terms and conditions of all Options that are currently held by BBW Executives. These Options were issued at no cost and no amounts have been paid, or are payable, by the recipient for the granting of these Options. Each Option entitles the holder to subscribe for one fully-paid ordinary share in Babcock & Brown. The Options do not entitle the Option holder to participate in share issues made by Babcock & Brown. In relation to the BBW Executives in Table 7 below, no Options vested, were exercised or lapsed during the year and all Options held at 30 June 2008 are unvested and unexercisable.

**TABLE 7: TERMS AND CONDITIONS OF OUTSTANDING OPTIONS**

The table below provides the terms and conditions of outstanding Options. Included in this table is an amount for Options granted during April 2008. The Options are valued as at the respective grant dates.

| BBW Executive | Granted Number | Grant date | Value per Option ($) | Total Value of Options granted ($) | Exercise Price per Option ($) | Estimated Vesting Date | Expiry Date |
|---|---|---|---|---|---|---|---|
| M George | 200,000 | 5/10/2004 | 1.267 | 253,400 | 5.00 | 22/08/2008 | 5/10/2010 |
| | 141,844 | 5/10/2004 | 4.86 | 689,362 | 0 | 22/08/2008 | 5/10/2010 |
| | 20,000 | 16/03/2006 | 5.46 | 109,200 | 17.25 | 24/08/2009 | 16/03/2012 |
| | 52,607 | 21/04/2008 | 3.73 | 196,224 | 12.95 | 18/08/2011 | 21/04/2014 |
| G Dutaillis | 20,000 | 16/03/2006 | 5.46 | 109,200 | 17.25 | 24/08/2009 | 16/03/2012 |
| | 30,000 | 9/03/2007 | 7.54 | 226,200 | 25.54 | 18/08/2011 | 9/03/2013 |
| | 28,558 | 21/04/2008 | 3.73 | 106,521 | 12.95 | 18/08/2011 | 21/04/2014 |
| G Dover | 7,500 | 9/03/2007 | 7.54 | 56,550 | 25.54 | 18/08/2011 | 9/03/2013 |
| | 28,558 | 21/04/2008 | 3.73 | 106,521 | 12.95 | 18/08/2011 | 21/04/2014 |
| D Richardson | 4,000 | 9/03/2007 | 7.54 | 30,160 | 25.54 | 18/08/2011 | 9/03/2013 |
| | 11,043 | 21/04/2008 | 3.73 | 41,190 | 12.95 | 18/08/2011 | 21/04/2014 |

1 The grant date for the 2008 performance-based Options was April 2008 with the number of Options granted based on the value per Option at the date of grant. The exercise price is based on the 5-day volume weighted average price of Babcock & Brown's shares prior to the grant date to BBW Executives.
2 The first exercise date for Options exercisable in 2011 is the date immediately following the results release to the ASX for Babcock & Brown for the half year ending 30 June 2011, anticipated to be in late August 2011, subject to the performance hurdle for these awards being achieved.
3 The first exercise date for Options exercisable in 2008 is the date immediately following the results release to the ASX for Babcock & Brown for the half-year ending 30 June 2008, anticipated to be in late August 2008.
4. The first exercise date for Options exercisable in 2009 is the date immediately following the results release to the ASX for Babcock & Brown for the half year ending 30 June 2009, anticipated to be in late August 2009, subject to the performance hurdles for these awards being achieved.

**EXECUTIVE EMPLOYMENT CONTRACTS**

The base salaries for BBW Executives as at 30 June 2008, in accordance with their employment contract, are shown below:

| BBW Executive | Base Remuneration per service agreement ($) |
|---|---|
| M George | 365,000 |
| G Dutaillis | 325,000 |
| G Dover | 325,000 |
| D Richardson | 175,000 |

The employment contracts relating to the above BBW Executives contain the conditions below.

| | |
|---|---|
| Length of contract | • Open-ended |
| Frequency of base remuneration review | • Annual |
| Benefits | • BBW Executives are entitled to participate in Babcock & Brown benefit plans that are made available. |
| Incentive Remuneration | • BBW Executives are eligible for an award of incentive remuneration (if any). |
| Termination of employment | • For M George, G Dutaillis and D Richardson, their employment is able to be terminated by either party on one month's written notice. Babcock & Brown may also elect to pay one month's salary in lieu of notice. For G Dover, his employment is able to be terminated by either party on 3 months' written notice. Babcock & Brown may also elect to pay three months' salary in lieu of notice. |

## DIRECTORS

The following persons were Directors of BBW during the financial year:

| Name | Role | Relevant BBW Entity[1] |
|---|---|---|
| P Hofbauer | Chairman and Non-Executive Director | BBWPL, BBWPB and BBWPS |
| A Battle | Independent Non-Executive Director | BBWPL, BBWPB and BBWPS |
| D Clemson | Independent Non-Executive Director | BBWPL, BBWPB and BBWPS |
| N Andersen | Independent Non-Executive Director | BBWPS |
| W Murphy | Non-Executive Director | BBWPL, BBWPB and BBWPS |

[1] Babcock & Brown Wind Partners Limited (BBWPL); Babcock & Brown Wind Partners (Bermuda) Limited (BBWPB); Babcock & Brown Wind Partners Services Limited (BBWPS) as responsible entity of the Babcock & Brown Wind Partners Trust.

#### REMUNERATION POLICY AND STRUCTURE

Independent Directors' individual fees, including committee fees, are determined by the BBW Boards within the aggregate amount approved by securityholders. The current maximum aggregate amount which may be paid to all Non-Executive Directors is $500,000 per annum for BBWPL and $500,000 per annum for BBWPB. BBWPS is a subsidiary entity of the B&B Group and no maximum aggregate amount of fees for Non-Executive Directors has been set. Babcock & Brown senior executives who are Non-Executive Directors of BBW are allocated the same amount of remuneration as the Independent Directors of BBW, however these senior executives do not directly receive any remuneration for their role as Director as these amounts are included as part of the fee paid to the Manager.

Independent Directors receive a cash fee for service. They do not receive any performance-based remuneration (such as Bonus Deferral Rights or Options) or any retirement benefits, other than receiving statutory superannuation.

Fees payable to Independent Directors during the year ended 30 June 2008 are set out below.

| Board / Committee | Role | Fee |
|---|---|---|
| BBWPL Board | Independent Director | $50,000 |
| BBWPB Board | Independent Director | $15,000 |
| BBWPS Board | Independent Director | $50,000 |
| BBWPL/BBWPB/BBWPS Boards | Lead Independent Director | $10,000 |
| BBWPL Audit, Risk & Compliance Committee | Independent Chairman | $4,333 |
| | Independent Member | $2,167 |
| BBWPB Audit, Risk & Compliance Committee | Independent Chairman | $4,333 |
| | Independent Member | $2,167 |
| BBWPS Audit, Risk & Compliance Committee | Independent Chairman | $4,333 |
| | Independent Member | $2,167 |
| BBWPL Nomination & Remuneration Committee | Independent Chairman | $4,000 |
| | Independent Member | $2,000 |

## DIRECTORS' MEETINGS

The number of meetings of Directors held during the year ended 30 June 2008, and the number of meetings attended by each Director, are set out below.

| | Board Meetings[1] | | | Committee Meetings | |
|---|---|---|---|---|---|
| | **BBWPL** | **BBWPB** | **BBWPS** | **Audit, Risk & Compliance** | **Nomination & Remuneration** |
| Number of meetings held: | 10 | 10 | 10 | 5 | 3 |
| Number of meetings attended: | | | | | |
| Peter Hofbauer | 10 | 10 | 10 | 5 | 3 |
| Anthony Battle | 10 | 10 | 10 | 5 | 3 |
| Douglas Clemson | 10 | 10 | 10 | 5 | 3 |
| Nils Andersen | n/a | n/a | 10 | n/a | 3 |
| Warren Murphy | 10 | 10 | 10 | n/a | 3 |

[1] Additional meetings of committees of Directors were held during the year that are not included in the above, for example where the Boards delegated authority to a committee of Directors to approve specific matters or documentation on behalf of the Boards.

Independent Non-Executive Directors also attend general business and transaction specific updates to maintain an understanding of business progress and activities. Furthermore, due to the global span of BBW's operations, and the fact that BBW's Directors are domiciled in different time zones, many of the Board and Committee meetings were held outside normal business hours.

## REMUNERATION OF DIRECTORS FOR THE YEARS ENDED 30 JUNE 2007 AND 2008

Details of the nature and amount of each element of the emoluments of each Director of BBW for the years ended 30 June 207 and 2008 are set out in the table below.

| Director | Year | Short-term benefits | Post-employment benefits | Total |
|---|---|---|---|---|
| | | Fees | Superannuation | |
| | | $ | $ | $ |
| Peter Hofbauer[1] | **2008** | **123,500** | **-** | **123,500** |
| | 2007 | 91,667 | - | 91,667 |
| Anthony Battle | **2008** | **124,313** | **11,188** | **135,501** |
| | 2007 | 93,885 | 8,449 | 102,334 |
| Douglas Clemson | **2008** | **119,268** | **10,732** | **130,000** |
| | 2007 | 89,604 | 8,063 | 97,667 |
| Nils Andersen | **2008** | **107,341** | **9,659** | **117,000** |
| | 2007 | 35,016 | 3,151 | 38,167 |
| Warren Murphy[1] | **2008** | **117,000** | **-** | **117,000** |
| | 2007 | 85,667 | - | 85,667 |
| **Total remuneration for Directors** | **2008** | **591,422** | **31,579** | **623,001** |
| | 2007 | 395,839 | 19,663 | 415,502 |

[1] The Non-Independent Directors do not directly received any remuneration from BBW for undertaking the role of Director of BBW, however part of the management fee payable by BBW is designated as consideration for these services.

## *Proceedings on behalf of BBW*

No person has applied for leave of the Court to bring proceedings on behalf of BBW, or to intervene in any proceedings to which BBW is a party, for the purpose of taking responsibility on behalf of BBW for all or part of these proceedings. BBW was not a party to any such proceedings during the year.

## *Non-audit services*

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 5 to the Financial Statements.

## *Auditor's independence declaration*

BBW's Auditor has provided a written declaration under section 307C of the *Corporations Act 2001* that to the best of their knowledge and belief, there have been no contraventions of:

- the Auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- the applicable Australian code of professional conduct in relation to the audit.

The auditor's independence declaration is attached to this Directors' report.

## *Rounding*

BBWPL is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the Directors pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors of BBW:

**Peter Hofbauer**
**Director**

**Warren Murphy**
**Director**

Sydney, 24 September 2008

PRICEWATERHOUSECOOPERS

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## Auditor's Independence Declaration

As lead auditor for the audit of Babcock & Brown Wind Partners Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Babcock & Brown Wind Partners Limited and the entities it controlled during the period.

AJ Wilson
Partner
PricewaterhouseCoopers

Sydney
24 September 2008

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## Independent auditor's report to the members of Babcock & Brown Wind Partners Limited

**Report on the financial report**

We have audited the accompanying financial report of Babcock & Brown Wind Partners Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Babcock & Brown Wind Partners Limited (the "Company") and the Babcock & Brown Wind Partners Group (the "Consolidated Entity"). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PRICEWATERHOUSECOOPERS

## Independent auditor's report to the members of Babcock & Brown Wind Partners Limited (continued)

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

*Auditor's opinion*

In our opinion:

(a) the financial report of Babcock & Brown Wind Partners Limited is in accordance with the *Corporations Act 2001,* including:

  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 6 to 20 of the directors' report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with the Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the Remuneration Report of Babcock & Brown Wind Partners Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

AJ Wilson
Partner

Sydney
24 September 2008

# Income statements
# for the year ended 30 June 2008

| | Note | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated*) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|---|
| Revenue | 2 | 414,481 | 125,399 | 18,763 | 13,597 |
| Net gain on revaluation of financial assets | 9 | 24,246 | 12,853 | - | - |
| Other income | 2 | 73,343 | 30,803 | 23,811 | 9,654 |
| Gains on financial instruments from refinancing debt facilities | | - | 23,895 | - | 5,723 |
| Operating expenses | 2 | (95,958) | (34,097) | (11,081) | (8,927) |
| Management charges | 2 | (29,212) | (21,093) | (23,513) | (17,078) |
| Depreciation and amortisation expense | 2 | (134,275) | (46,009) | (1,367) | (1,638) |
| Finance costs | 2 | (196,881) | (84,658) | (9,537) | (19,655) |
| **Net profit / (loss) before income tax expense** | | 55,744 | 7,093 | (2,924) | (18,324) |
| Income tax benefit / (expense) | 3 | (15,916) | (769) | (3,487) | 5,006 |
| **Net profit / (loss) for the year** | | 39,828 | 6,324 | (6,411) | (13,318) |
| Attributable to stapled security holders as: | | | | | |
| Equity holders of the parent | | 26,525 | (162) | (6,411) | (13,318) |
| Equity holders of the other stapled entities (minority interests) | | 699 | 5,754 | - | - |
| | | 27,224 | 5,592 | (6,411) | (13,318) |
| Other minority interests | | 12,604 | 732 | - | - |
| | | 39,828 | 6,324 | (6,411) | (13,318) |
| **Earnings per share of the parent based on earnings attributable to the equity holders of the parent:** | | | | | |
| Basic (cents per security) | 22 | 3.2 | 0.0 | | |
| Diluted (cents per security) | 22 | 3.2 | 0.0 | | |

The above income statements should be read in conjunction with the accompanying Notes to the financial statements.

* Refer to Note 1(a) for further information regarding the restatement

# Balance sheets as at 30 June 2008

| | Note | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated*) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 32 | 208,505 | 442,969 | 47,294 | 23,265 |
| Trade and other receivables | 6 | 194,213 | 43,995 | 38,573 | 49,078 |
| Prepayments | 7 | 29,792 | 7,008 | 1,458 | 1,040 |
| Other current assets | 8 | 927 | 72 | - | - |
| Derivative financial instruments | 10 | 33,372 | 5,986 | 6,650 | 3,570 |
| **Total current assets** | | 466,809 | 500,030 | 93,975 | 76,953 |
| **Non-current assets** | | | | | |
| Receivables | 6 | 38,651 | - | 1,012,434 | 799,805 |
| Prepayments | 7 | 15,158 | 23,228 | 4,404 | 9,119 |
| Investments in financial assets | 9 | - | 488,292 | - | - |
| Investment in associates | | 271 | - | - | - |
| Shares in controlled entities | | - | - | 41,474 | 42,860 |
| Derivative financial instruments | 10 | 92,068 | 33,983 | 3,177 | 4,646 |
| Property, plant and equipment | 11 | 4,887,995 | 1,197,296 | - | - |
| Deferred tax assets | 3 | 72,272 | 44,424 | 23,261 | 21,945 |
| Goodwill | 12 | 752,681 | 80,522 | - | - |
| Intangible assets | 13 | 249,525 | 250,703 | 281 | 1,648 |
| **Total non-current assets** | | 6,108,621 | 2,118,448 | 1,085,031 | 880,023 |
| **Total assets** | | 6,575,430 | 2,618,478 | 1,179,006 | 956,976 |
| **Current liabilities** | | | | | |
| Trade and other payables | 14 | 296,392 | 261,345 | 19,630 | 12,726 |
| Borrowings | 15 | 177,921 | 39,241 | - | 2,580 |
| Derivative financial instruments | 16 | 9,074 | 264 | 78 | - |
| Current tax payables | 3 | 6,346 | 4,999 | - | - |
| **Total current liabilities** | | 489,733 | 305,849 | 19,708 | 15,306 |
| **Non-current liabilities** | | | | | |
| Payables | 14 | 17,196 | - | - | - |
| Borrowings | 15 | 3,342,304 | 1,301,242 | 1,177,253 | 955,534 |
| Derivative financial instruments | 16 | 15,293 | - | 75 | - |
| Deferred tax liabilities | 3 | 269,078 | 58,802 | - | - |
| **Total non-current liabilities** | | 3,643,871 | 1,360,044 | 1,177,328 | 955,534 |
| Institutional equity partnerships classified as liabilities | 17 | 1,306,604 | 205,529 | - | - |
| **Total liabilities** | | 5,440,208 | 1,871,422 | 1,197,036 | 970,840 |
| **Net assets / (liabilities)** | | 1,135,222 | 747,056 | (18,030) | (13,864) |
| **Equity holders of the parent** | | | | | |
| Contributed equity | 19 | 4,501 | 4,470 | 4,501 | 4,470 |
| Reserves | 20 | (42,794) | (41,420) | 5,919 | 3,705 |
| Retained earnings | 21 | 8,238 | (18,287) | (28,450) | (22,039) |
| | | (30,055) | (55,237) | (18,030) | (13,864) |
| **Equity holders of the other stapled entities (minority interests)** | | | | | |
| Contributed equity | 19 | 1,009,909 | 805,855 | - | - |
| Reserves | 20 | (21,635) | (21,635) | - | - |
| Retained earnings | 21 | 10,660 | 9,961 | - | - |
| | | 998,934 | 794,181 | - | - |
| **Other minority interests** | | 166,343 | 8,112 | - | - |
| **Total equity** | | 1,135,222 | 747,056 | (18,030) | (13,864) |

The above balance sheets should be read in conjunction with the accompanying Notes to the financial statements.

* Refer to Note 1(a) for further information regarding the restatement

# Statements of changes in equity for the year ended 30 June 2008

| | Note | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated*) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|---|
| **Total equity at the beginning of the year** | | 747,056 | 666,019 | (13,864) | (5,624) |
| Movement in fair value of cash flow hedge, net of tax | 20 | 16,129 | 3,845 | 2,214 | 5,062 |
| Exchange differences on translation of foreign operations and movement in fair value of net investment hedges | 20 | (17,503) | (31,303) | - | - |
| Net income / (expense) recognised directly in equity | | (1,374) | (27,458) | 2,214 | 5,062 |
| Net profit / (loss) for the year | | 39,828 | 6,324 | (6,411) | (13,318) |
| Total recognised income and expense for the year | | 38,454 | (21,134) | (4,197) | (8,256) |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | |
| Contributions of equity, net of transaction costs | 19 | 283,157 | 168,675 | 31 | 16 |
| Minority interest on acquisition of subsidiary | | 146,636 | 135 | - | - |
| Securities issued as consideration for purchase of subsidiaries | 19 | 24,480 | - | - | - |
| Securities issued as consideration in relation to services | 19 | - | 1,112 | - | - |
| Distributions paid | 23 | (103,552) | (65,596) | - | - |
| Distribution to minority interest | | (1,009) | (2,155) | - | - |
| **Total equity at the end of the year** | | 1,135,222 | 747,056 | (18,030) | (13,864) |
| Total recognised income and expenses for the year is attributable to: | | | | | |
| Equity holders of the parent | | 25,151 | (27,620) | (4,197) | (8,256) |
| Equity holders of the other stapled entities | | 699 | 5,754 | - | - |
| Other minority interests | | 12,604 | 732 | - | - |
| | | 38,454 | (21,134) | (4,197) | (8,256) |

The above statements of changes in equity should be read in conjunction with the accompanying Notes to the financial statements.

* Refer to Note 1(a) for further information regarding the restatement

# Cash flow statements
# for the year ended 30 June 2008

| | Note | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated*) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit/ (loss) for the period | | 39,828 | 6,324 | (6,411) | (13,318) |
| Adjustments for: | | | | | |
| Distributions paid to minority interests | | (11,647) | - | - | - |
| Interests in institutional equity partnerships | | 9,051 | 30 | - | - |
| (Gain)/loss on revaluation for fair value through profit or loss financial assets – financial instruments | | (2,728) | (15,088) | 2,417 | (4,257) |
| Gain on revaluation for fair value through profit or loss financial assets – financial asset investments | | (24,246) | (12,853) | - | - |
| Distributions received from financial asset investments | | 17,706 | 27,420 | - | - |
| Depreciation and amortisation of non-current assets | | 134,275 | 46,009 | 1,367 | 1,638 |
| Foreign exchange (gain)/loss | | (2,196) | - | (6,037) | 1,558 |
| Amortisation of borrowing costs capitalised | | 5,817 | 21,570 | - | 6,978 |
| Increase/(decrease) in current tax liability | | (1,393) | 1,367 | - | - |
| (Increase)/decrease in deferred tax balances | | 15,343 | (4,528) | 3,487 | (5,004) |
| Changes in operating assets and liabilities, net of effects from acquisition and disposal of businesses: | | | | | |
| (Increase)/decrease in assets: | | | | | |
| Current receivables and other current assets | | (54,740) | 16,899 | 14,320 | (12,282) |
| Increase/(decrease) in liabilities: | | | | | |
| Current payables | | 61,743 | (1,615) | 2,934 | 3,252 |
| **Net cash from operating activities** | | 186,813 | 85,535 | 12,077 | (21,435) |
| **Cash flows from investing activities** | | | | | |
| Payment for property, plant and equipment | | (250,377) | (268,871) | - | - |
| Payment for intangible assets | | (535) | - | - | - |
| Payment for investments in controlled and jointly controlled entities | 32(b) | (352,967) | (74,545) | (486) | (957) |
| Prepaid investment | | - | (899) | - | - |
| Payment for investments in associates | | (253) | - | - | - |
| Payment for investments in financial assets | | (540,929) | (296,533) | - | - |
| Proceeds from sale of investment in financial assets | | - | 13,764 | - | - |
| Refund of investment prepayment | | 4,672 | - | 4,672 | - |
| Loans advanced | | (38,090) | - | - | - |
| Loans to related parties | | (776,000) | (150,000) | (1,370,216) | (357,463) |
| Repayment of loans by related parties | | 776,000 | 150,000 | 1,150,967 | 67,087 |
| **Net cash used in investing activities** | | (1,178,479) | (627,084) | (215,063) | (291,333) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issues of equity securities, net of costs | 19 | 253,969 | 153,593 | 28 | 16 |
| Proceeds from borrowings | | 1,099,242 | 1,656,689 | - | 135,626 |
| Repayment of borrowings | | (483,973) | (1,086,325) | - | (143,691) |
| Loans from related parties | | 17,407 | - | 233,243 | 567,080 |
| Repayment of borrowings to related parties | | (57,095) | - | (7,471) | (286,147) |
| Distributions paid to security holders | | (74,490) | (50,513) | - | - |
| **Net cash provided by financing activities** | | 755,060 | 673,444 | 225,800 | 272,884 |
| **Net increase in cash and cash equivalents** | | (236,606) | 131,895 | 22,814 | (39,884) |
| **Cash and cash equivalents at the beginning of the financial year** | | 442,969 | 315,984 | 23,265 | 64,166 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 2,142 | (4,910) | 1,215 | (1,017) |
| **Cash and cash equivalents at the end of the financial year** | 32(a) | 208,505 | 442,969 | 47,294 | 23,265 |

The above cash flow statements should be read in conjunction with the accompanying Notes to the financial statements.

* Refer to Note 1(a) for further information regarding the restatement

# Notes to the financial statements for the year ended 30 June 2008


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## 1. Summary of accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Babcock & Brown Wind Partners Limited as an individual entity and the Group consisting of Babcock & Brown Wind Partners Limited and its subsidiaries.

*Stapled security*

The shares of Babcock & Brown Wind Partners Limited ("BBWPL" or the "Company") and Babcock & Brown Wind Partners (Bermuda) Limited ("BBWPB") and the units of Babcock & Brown Wind Partners Trust ("BBWPT" or the "Trust") are combined and issued as stapled securities in Babcock & Brown Wind Partners Group ("BBW" or the "Group"). The shares of BBWPL and BBWPB and the units of BBWPT cannot be traded separately and can only be traded as stapled securities.

This financial report consists of the consolidated financial statements of BBWPL, which comprises BBWPL and its controlled entities, BBWPT and its controlled entities and BBWPB, together acting as BBW.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

*Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated and parent entity financial report of BBWPL complies with International Financial Reporting Standards (IFRS).

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets (including derivative instruments) at fair value through profit or loss.

*Correction of accounting treatment in relation to jointly controlled assets*

The directors have reassessed the accounting treatment in relation to certain jointly controlled US wind farms. The wind farms include Sweetwater 1, Sweetwater 2, Sweetwater 3, Blue Canyon and Combine Hills. The wind farms had previously been recognised as investments in associates and designated as fair value through the profit and loss under AASB 139: Financial Instruments: Recognition and Measurement and AASB 128: Investments in Associates.

The directors have now determined that BBW had joint control of these interests from 30 June 2006. Joint control arises given that the strategic and operating decisions of the wind farms require unanimous consent amongst the B Class investors. As a result the directors have elected to proportionately consolidate BBW's interests in accordance with AASB 131 Interests in Joint Ventures.

The impact of the change in accounting treatment of the jointly controlled entities has been applied retrospectively and comparative information in relation to the 2007 financial year has been restated accordingly.

## 1. Summary of accounting policies *(cont'd)*

The following adjustments were made as at 30 June 2007:

| | 30 June 2007 $000 | Accounting treatment change $000 | 30 June 2007 $000 (Restated)* |
|---|---|---|---|
| Revenue | 103,716 | 21,683 | 125,399 |
| Revaluation of financial assets | 18,569 | (5,716) | 12,853 |
| Other income | 14,674 | 16,129 | 30,803 |
| Gains on financial instruments from refinancing debt facilities | 23,895 | - | 23,895 |
| Operating expenses | (22,330) | (11,767) | (34,097) |
| Management charges | (21,093) | - | (21,093) |
| Depreciation and amortisation expense | (33,965) | (12,044) | (46,009) |
| Finance costs | (68,844) | (15,814) | (84,658) |
| **Net profit / (loss) before income tax expense** | 14,622 | (7,529) | 7,093 |
| Income tax benefit / (expense) | (769) | - | (769) |
| **Net profit / (loss) for the year** | 13,853 | (7,529) | 6,324 |
| Attributable to stapled security holders as: | | | |
| Equity holders of the parent | 7,367 | (7,529) | (162) |
| Equity holders of the other stapled entities (minority interests) | 5,754 | - | 5,754 |
| | 13,121 | (7,529) | 5,592 |
| Other minority interests | 732 | - | 732 |
| | 13,853 | (7,529) | 6,324 |
| **Earnings per share of the parent based on earnings attributable to the equity holders of the parent:** | | | |
| Basic (cents per security) | 1.2 | | 0.0 |
| Diluted (cents per security) | 1.2 | | 0.0 |

*The 2007 amounts include the impacts of purchase price allocations relating to 30 June 2007

There was no impact on the parent entity's financial statements.

## 1. Summary of accounting policies *(cont'd)*

| | Consolidated | | | |
|---|---|---|---|---|
| | 30 June 2007 $000 | Purchase Price Allocation $000 | Accounting treatment change $000 | 30 June 2007 $000 (Restated) |
| **Current assets** | | | | |
| Cash and cash equivalents | 441,625 | - | 1,344 | 442,969 |
| Trade and other receivables | 40,797 | - | 3,198 | 43,995 |
| Prepayments | 6,090 | - | 918 | 7,008 |
| Other current assets | 72 | - | - | 72 |
| Derivative financial instruments | 5,986 | - | - | 5,986 |
| **Total current assets** | 494,570 | - | 5,460 | 500,030 |
| **Non-current assets** | | | | |
| Receivables | - | - | - | - |
| Prepayments | 23,228 | - | - | 23,228 |
| Investments in financial assets | 581,033 | - | (92,741) | 488,292 |
| Derivative financial instruments | 33,983 | - | - | 33,983 |
| Property, plant and equipment | 937,659 | 7,312 | 252,325 | 1,197,296 |
| Deferred tax assets | 44,424 | - | - | 44,424 |
| Goodwill | 115,739 | (74,629) | 39,412 | 80,522 |
| Intangible assets | 156,839 | 93,864 | - | 250,703 |
| **Total non-current assets** | 1,892,905 | 26,547 | 198,996 | 2,118,448 |
| **Total assets** | 2,387,475 | 26,547 | 204,456 | 2,618,478 |
| **Current liabilities** | | | | |
| Trade and other payables | 257,049 | - | 4,296 | 261,345 |
| Borrowings | 39,241 | - | - | 39,241 |
| Derivative financial instruments | 264 | - | - | 264 |
| Current tax payables | 4,999 | - | - | 4,999 |
| **Total current liabilities** | 301,553 | - | 4,296 | 305,849 |
| **Non-current liabilities** | | | | |
| Borrowings | 1,299,644 | - | 1,598 | 1,301,242 |
| Derivative financial instruments | - | - | - | - |
| Deferred tax liabilities | 32,255 | 26,547 | - | 58,802 |
| **Total non-current liabilities** | 1,331,899 | 26,547 | 1,598 | 1,360,044 |
| Institutional equity partnerships classified as liabilities | - | - | 205,529 | 205,529 |
| **Total liabilities** | 1,633,452 | 26,547 | 211,423 | 1,871,422 |
| **Net assets / (liabilities)** | 754,023 | - | (6,967) | 747,056 |
| **Equity holders of the parent** | | | | |
| Contributed equity | 4,470 | - | - | 4,470 |
| Reserves | (41,982) | - | 562 | (41,420) |
| Retained earnings | (10,758) | - | (7,529) | (18,287) |
| | (48,270) | - | (6,967) | (55,237) |
| **Equity holders of the other stapled entities (minority interests)** | | | | |
| Contributed equity | 805,855 | - | - | 805,855 |
| Reserves | (21,635) | - | - | (21,635) |
| Retained earnings | 9,961 | - | - | 9,961 |
| | 794,181 | - | - | 794,181 |
| **Other minority interests** | 8,112 | - | - | 8,112 |
| **Total equity** | 754,023 | - | (6,967) | 747,056 |

## 1. Summary of accounting policies *(cont'd)*

### (b) Consolidated accounts

UIG 1013: *Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements* requires one of the stapled entities of an existing stapled structure to be identified as the parent entity for the purpose of preparing consolidated financial reports. In accordance with this requirement, BBWPL has been identified as the parent of the consolidated group comprising BBWPL and its controlled entities, BBWPT and its controlled entities and BBWPB.

In accordance with UIG 1013, consolidated financial statements have been prepared by BBWPL as the identified parent of BBW. The financial statements of BBW should be read in conjunction with the separate financial statements of BBWPT for the period ended 30 June 2008.

AASB Interpretation 1002 Post-Date-of-Transition Stapling Arrangements applies to stapling arrangements occurring during annual reporting periods ending on or after 31 December 2005 where the identified parent does not obtain an ownership interest in the entity whose securities have been stapled. As a consequence of the stapling arrangement involving no acquisition consideration and no ownership interest being acquired by the combining entities, no goodwill is recognised in relation to the stapling arrangement and the interests of the equity holders in the stapled securities are treated as minority interests.

Whilst stapled arrangements occurring prior to the application of AASB Interpretation 1002 are grandfathered and can continue to be accounted for in accordance with the principles established in UIG 1013, for disclosure purposes and the fact that BBW has entered into stapling arrangements both pre and post transition to AIFRS, the interests of the equity holders in all stapled securities (regardless of whether the stapling occurred pre or post transition to AIFRS) has been treated as minority interest under the principles established in AASB Interpretation 1002.

### (c) Principles of consolidation

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of BBWPL as at 30 June 2008 and the results of all subsidiaries for the year then ended. BBWPL and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer Note 1(f)).

**1. Summary of accounting policies** (*cont'd*)

The Group applies a policy of treating transactions with minority interests as transactions with a shareholder. Purchases from minority interests result in an acquisition reserve being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheets respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of BBWPL.

*(ii) Jointly controlled entities*

Jointly controlled entities, consolidated under the proportionate consolidation method, are entities over whose activities the Group has joint control, under a contractual agreement, together with the other owners of the entity. The consolidated financial statements include the Group's proportionate share of the joint venture's assets and liabilities, revenues and expenses, from the date the joint control begins until it ceases.

**(d) Investment in financial assets**

Financial assets comprise institutional equity partnerships where the Group does not have the power to govern the financial and operating policies of the entity. Financial assets are recognised at fair value each reporting period through profit and loss.

Revaluations of financial assets are determined using a discounted cash flow analysis. The methodology applied continues to be a generally accepted methodology for valuing wind farms and a basis in which market participants price new acquisitions.

## 1. Summary of accounting policies *(cont'd)*

### (e) Trade and other payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### (f) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer Note 1(p)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (g) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down on the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## 1. Summary of accounting policies (*cont'd*)

### (h) Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets are capitalised as part of the cost of those assets. Other borrowing costs are expensed.

### (i) Assets under construction

Costs incurred in relation to assets under construction are deferred to future periods.

Deferred costs are transferred to plant and equipment from the time the asset is held ready for use on a commercial basis.

### (j) Property, plant and equipment

Plant and equipment, including equipment under finance lease, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is recognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

| | |
|---|---|
| Plant and equipment | 25 years |

## 1. Summary of accounting policies *(cont'd)*

### (k) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in the income statement depends on the nature of the hedge relationship.

The Group designates certain derivatives as either hedges of the cashflows of highly probable forecast transactions (cash flow hedges) or hedges of net investments in foreign operations (net investment hedge).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

*(i) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as depreciation in the case of fixed assets.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

*(ii) Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses deferred in the foreign currency translation reserve are recognised immediately in the income statement when the foreign operation is partially disposed of or sold.

*(iii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

## 1. Summary of accounting policies (*cont'd*)

### (l) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (m) Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

### (n) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

## 1. Summary of accounting policies *(cont'd)*

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

### (o) Income tax

*Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

*Deferred tax*

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are realised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be realised. However, deferred tax assets and liabilities are not realised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not realised in relation to taxable temporary differences arising from goodwill.

**1. Summary of accounting policies** *(cont'd)*

Deferred tax liabilities are realised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only realised to the extent that it is probable that there will be sufficient taxable profits against which to realise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/ Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Under current Bermudian law, BBWPB will not be subject to any income, withholding or capital gains taxes in Bermuda.

Current and deferred tax is determined in reference to the tax jurisdiction in which the relevant entity resides.

*Tax consolidation*

Legislation to allow groups, comprising a parent entity and its Australian wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation includes both mandatory and elective elements, and is applicable to BBWPL and its controlled entities. This legislation is not applicable to the Trust.

The head entity, BBWPL, and the controlled entities in the tax-consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred amounts, BBWPL also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in Note 3.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

## 1. Summary of accounting policies *(cont'd)*

### (p) Intangible assets

*(i) Goodwill*

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Goodwill on acquisition is separately disclosed in the balance sheet. Goodwill acquired in business combinations is not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is amortised immediately in the income statement and is not subsequently reversed. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

*(ii) Framework Agreements*

Costs incurred with respect to entering into framework agreements, which provide a pre-emptive right to acquire assets (subject to certain conditions being met), have been amortised. To the extent that an agreement relates to a specific asset(s), the related costs are amortised as an ancillary cost of acquisition. Where an agreement does not relate to a specific asset, the costs are amortised over the period of the agreements, which vary from 15 months to 3 years.

*(iii) Licences*

Licences are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives, which are based on the lease term of the related wind farm.

### (q) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*(i) Group as lessee*

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are recognised in accordance with the Group's general policy on borrowing costs.

Finance leased assets are amortised on a straight line basis over the shorter of the lease term and estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*(ii) Group as lessor*

Refer to Note 1(v) for the accounting policy in respect of lease income from operating leases.

**1. Summary of accounting policies** *(cont'd)*

**(r) Impairment of assets**

At each reporting date, the consolidated group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating unit). If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(s) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

**(t) Provisions**

Provisions are recognised when the consolidated group has a present legal or constructive obligation as a result of past events, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

## 1. Summary of accounting policies *(cont'd)*

### (u) Distributions and dividends

Provision is made for the amount of any distribution or dividend declared being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year, but not distributed at balance date.

### (v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognised revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Electricity sales

Product sales are generated from the sale of electricity generated from the Group's wind farms. Revenues from product sales are recognised on an accruals basis. Product sales revenue is only recognised when the significant risks and rewards of ownership of the products has passed to the buyer and the Group attains the right to be compensated.

(ii) Lease income

In accordance with UIG 4 *Determining whether an Asset Contains a Lease,* revenue generated under certain power purchase agreements are classified as lease income.

Lease income from operating leases is recognised in income on an accruals basis. Lease income is only recognised when the significant risks and rewards of ownership of the products has passed to the buyer and the Group attains the right to be compensated.

(iii) Production Tax Credits (PTC's)

PTC's are recognised as revenue when generated by the underlying wind farm assets and utilised to settle the obligation to Class A institutional investors.

(iv) Accelerated tax depreciation credits and operating tax gains/(losses)

The accelerated tax depreciation credits on wind farm assets are utilised to settle the obligation to Class A institutional investors when received. The associated revenue is recognised over the 25 year life of the wind farm to which they relate.

(v) Revaluation of financial assets

Income from investments in financial assets at fair value through profit or loss constitutes changes in the fair value of investments in unlisted securities. Income relating to these investments is brought to account as described in Note 1(d).

(vi) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

**1. Summary of accounting policies** *(cont'd)*

(vii) Other income

Interest income is recognised using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

Revenue from rendering of services is recognised when services are provided.

**(w) Loans and receivables**

Trade receivables, loans and other receivables are recorded at amortised cost less impairment. Trade receivables are generally due for settlement within 30 days.

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of loans and receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the income statement within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

**(x) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example, as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

**(y) Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## 1. Summary of accounting policies *(cont'd)*

### (z) Fair value estimation

The fair value of the financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market prices for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### (aa) Institutional equity partnerships classified as liabilities

*(i) Class A members*

Initial contributions by Class A members into US partnerships are recognised at cost using the effective interest method. Class A carrying amounts are adjusted when actual cash flow differs from estimated cash flow. The adjustment is calculated by computing the present value of the actual difference using the original effective interest rate. The adjustment is recognised through income or expense in profit or loss.

This difference represents the change in residual interest due to the Class A institutional investors.

*(ii) Class B members*

On consolidation of the US partnerships the Group's Class B membership interest and associated finance charge for the year is eliminated and any external Class B member balances remaining represents net assets of US partnerships attributable to minority interests. Refer 1(c) for further details of the Group's accounting policy for consolidation.

## 1. Summary of accounting policies *(cont'd)*

### (ab) Rounding of amounts

The Group is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (ac) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to assets under construction.

(iii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*

**1. Summary of accounting policies** *(cont'd)*

The revised AASB 101 that was issued in September 2007 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or a reclassification of items in the financial statements, it will also need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

(iv) Revised AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*

Revised accounting standards for business combinations and consolidated financial statements were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009, but may be applied earlier. The Group has not yet decided when it will apply the revised standards. However, the new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the Group will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application. For example, under the new rules:

- all payments (including contingent consideration) to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments subsequently remeasured at fair value through income
- all transaction cost will be expensed
- the Group will need to decide whether to continue calculating goodwill based only on the parent's share of net assets or whether to recognise goodwill also in relation to the non-controlling (minority) interest, and
- when control is lost, any continuing ownership interest in the entity will be remeasured to fair value and a gain or loss recognised in profit or loss.

(v) AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

In July 2008, the AASB approved amendments to AASB 1 *First-time Adoption of International Financial Reporting Standards* and AABS 127 *Consolidated and Separate Financial Statements*. The new rules will apply to financial reporting periods commencing on or after 1 January 2009. The Group will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

(vi) AASB Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*

AASB-I 16 was issued in August 2008 and applies to reporting periods commencing on or after 1 October 2008. The interpretation clarifies which foreign currency risks qualify as hedged risk in the hedge of a net investment in a foreign operation and that hedging instruments may be held by any entity or entities within the group. It also provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. The Group will apply the interpretation prospectively from 1 July 2009.

## 1. Summary of accounting policies *(cont'd)*

### (ad) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

*(i) Estimated useful economic life of property, plant and equipment*

As disclosed in Note 1(j) the Group depreciates property, plant and equipment over 25 years. This period of depreciation is utilised for assets that have useful economic lives in excess of 25 years as the life of the project is 25 years and no determination to extend the life of the project has been made at this stage.

*(ii) Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(r). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 12 for details of these assumptions and the potential impact of changes to the assumptions.

*(iii) Income taxes*

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

*(iv) Forecast cash flows and discount rates*

As disclosed in Note 1(d), financial assets comprise institutional equity partnerships where the Group does not have the power to govern the financial and operating policies of the entity. Financial assets are recognised at fair value each reporting period through profit and loss using a discounted cash flow methodology.

This methodology requires assumptions to be made in respect of forecast cash flows and discount rates. These assumptions are subject to variation from period to period.

## 2. Profit from operations

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Revenue from the sale of energy and products | 270,566 | 77,566 | - | - |
| Revenue from lease of plant and equipment* | 137,964 | 44,656 | - | - |
| Compensation for revenues lost as a result of O&M providers not meeting contracted turbine availability targets | 5,951 | 3,177 | - | - |
| Revenue from the rendering of services | - | - | 18,763 | 13,597 |
| | 414,481 | 125,399 | 18,763 | 13,597 |
| **Other income** | | | | |
| Interest income | 16,128 | 10,398 | 8,141 | 3,531 |
| Foreign exchange gains | 10,173 | 2,826 | 14,837 | 4,669 |
| Fair value gains on financial instruments | 5,787 | 1,970 | - | 1,454 |
| Value of benefits provided – production tax credits (Class A)** | 52,824 | 16,013 | - | - |
| Value of benefits provided – tax losses (Class A) ** | 75,571 | 16,596 | - | - |
| Benefits deferred during the period** | (88,228) | (17,349) | - | - |
| Other income | 1,088 | 349 | 833 | - |
| | 73,343 | 30,803 | 23,811 | 9,654 |

* Under UIG INT 4, certain of BBW's contractual arrangements relating to electricity supply have been classified as leases.

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| **Profit/ (loss) before income tax has been arrived at after charging the following expenses:** | | | | |
| Administration, consulting and legal fees | 13,133 | 3,595 | 11,081 | 8,927 |
| Wind farm operations and maintenance costs | 82,825 | 30,502 | - | - |
| | 95,958 | 34,097 | 11,081 | 8,927 |
| Depreciation of property, plant & equipment | 124,975 | 40,993 | - | - |
| Amortisation of intangible assets | 9,300 | 5,016 | 1,367 | 1,638 |
| | 134,275 | 46,009 | 1,367 | 1,638 |
| Finance costs: | | | | |
| Interest expense | 135,285 | 42,447 | 6,716 | 10,665 |
| Fair value losses on financial instruments | 2,984 | 2,735 | 2,417 | - |
| Write-off of capitalised loans costs due to refinancing | - | 15,965 | - | 5,090 |
| Allocation of return on outstanding balance (Class A)** | 39,522 | 12,960 | - | - |
| Movement in residual interest (Class A)** | 5,108 | 2,330 | - | - |
| Minority interest (Class B)** | 4,588 | - | | |
| Bank fees and loan amortisation costs | 9,394 | 8,221 | 404 | 3,900 |
| | 196,881 | 84,658 | 9,537 | 19,655 |
| Management charges*: | | | | |
| Base fees | 20,487 | 14,770 | 14,788 | 10,755 |
| Incentive fee | - | - | - | - |
| Management expenses | 8,725 | 6,323 | 8,725 | 6,323 |
| | 29,212 | 21,093 | 23,513 | 17,078 |

*Refer Note 30 for further details.

**Refer Note 17 for further details.

## 3. Income taxes

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| **(a) Income tax expense** | | | | |
| *Income tax comprises:* | | | | |
| Current tax | 3,586 | (7,214) | 2,927 | (5,234) |
| Deferred tax | 12,330 | 7,983 | 560 | 228 |
| | 15,916 | 769 | 3,487 | (5,006) |
| Deferred income tax expense included in income tax (revenue) / expense comprises: | | | | |
| Decrease / (increase) in deferred tax assets | 235 | 17,032 | (298) | (71) |
| (Decrease) / increase in deferred tax liabilities | 12,095 | (9,049) | 858 | 299 |
| | 12,330 | 7,983 | 560 | 228 |
| **(b) Numerical reconciliation of income tax expense/ (benefit) to prima facie tax payable:** | | | | |
| Profit/ (loss) from continuing operations before income tax expense | 55,744 | 7,093 | (2,924) | (18,324) |
| Income tax expense calculated at 30% (2007: 30%) | 16,723 | 2,128 | (877) | (5,497) |
| Tax effect of amounts which are not deductible / (taxable) in calculating taxable income: | | | | |
| Non-deductible expenses | 2,323 | 770 | 1,316 | - |
| Non-assessable income | (15,855) | (3,637) | - | - |
| Non-deductible expenses for trade tax purposes | 12 | 95 | - | - |
| Amortisation of framework agreements | 410 | 491 | 410 | 491 |
| Non-deductible interest expense | 14,007 | - | 2,638 | |
| Management fee | - | 1,195 | - | - |
| Unrealised foreign exchange movement | (81) | - | - | |
| Sundry items | 368 | 121 | - | - |
| Difference in overseas tax rates | (102) | (394) | - | - |
| Previously unrecognised tax losses | (1,889) | - | - | - |
| Income tax expense/ (benefit) | 15,916 | 769 | 3,487 | (5,006) |

## 3. Income taxes *(cont'd)*

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| **(c) Amounts recognised directly in equity** | | | | |
| The following deferred amounts were not recognised in net profit or loss but charged directly to equity during the period: | | | | |
| Deferred tax asset | (7,601) | (16,761) | - | - |
| Deferred tax liabilities | 3,071 | 9,825 | 948 | (2,322) |
| Net deferred tax | (4,530) | (6,936) | 948 | (2,322) |
| **(d) Tax losses** | | | | |
| Unused tax losses for which no deferred tax asset has been recognised | (35,313) | - | (31,343) | - |
| Potential tax benefit @ 30% | (10,594) | - | (9,403) | - |

### (e) Tax consolidation

BBWPL and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is BBWPL. The members of the tax-consolidated group are identified at Note 27.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, BBWPL and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| **(f) Current tax liabilities** | | | | |
| **Current tax payables:** | | | | |
| Income tax payable attributable to: | | | | |
| Australian entities in the group | 580 | 1,079 | - | - |
| Overseas entities in the group | 5,766 | 3,920 | - | - |
| | 6,346 | 4,999 | - | - |

## 3. Income taxes *(cont'd)*

Taxable and deductible temporary differences arise from the following:

| 2008 | Opening balance $'000 | Charged to income $'000 | Consolidated Charged to equity $'000 | Acquisitions/ disposals $'000 | Closing balance $'000 |
|---|---|---|---|---|---|
| **Gross deferred tax assets:** | | | | | |
| Unused revenue tax losses – corporate & trade | 25,202 | (1,851) | - | 9,342 | 32,693 |
| Deductible Goodwill | - | - | - | 7,921 | 7,921 |
| Deductible equity raising costs | 80 | - | - | - | 80 |
| Effect of hedge movements | 2,943 | (2,138) | 7,601 | - | 8,406 |
| Unrealised foreign exchange loss | 15,078 | 5,700 | - | - | 20,778 |
| Other | 1,121 | (1,946) | - | 3,219 | 2,394 |
| | 44,424 | (235) | 7,601 | 20,482 | 72,272 |
| **Gross deferred tax liabilities:** | | | | | |
| Depreciation | (45,351) | (7,665) | - | (188,118) | (241,134) |
| Effect of hedge movements | (12,363) | 2,064 | (12,405) | (2,327) | (25,031) |
| Unrealised foreign exchange gains | - | (6,531) | 9,334 | - | 2,803 |
| Other | (1,088) | 37 | - | (4,665) | (5,716) |
| | (58,802) | (12,095) | (3,071) | (195,110) | (269,078) |

**3. Income taxes** *(cont'd)*

| 2007 | Opening balance $'000 | Charged to income $'000 | Consolidated Charged to equity $'000 | Acquisitions/ disposals $'000 | Closing balance $'000 |
|---|---|---|---|---|---|
| **Gross deferred tax assets:** | | | | | |
| Unused revenue tax losses – corporate | 9,222 | 15,415 | - | - | 24,637 |
| Unused tax losses for trade tax purposes | 64 | 501 | - | - | 565 |
| Deductible equity raising costs | 119 | - | (39) | - | 80 |
| Effect of hedge movements | 731 | - | 2,212 | - | 2,943 |
| Unrealised foreign exchange loss | 490 | - | 14,588 | - | 15,078 |
| Other | 5 | 1,116 | - | - | 1,121 |
| | 10,631 | 17,032 | 16,761 | - | 44,424 |
| **Gross deferred tax liabilities:** | | | | | |
| Depreciation | (9,755) | (9,049) | - | (26,547) | (45,351) |
| Effect of hedge movements | (2,932) | - | (9,431) | - | (12,363) |
| Other | (694) | - | (394) | - | (1,088) |
| | (13,381) | (9,049) | (9,825) | (26,547) | (58,802) |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| Deferred tax assets to be recovered within 12 months | - | - | - | - |
| Deferred tax assets to be recovered after more than 12 months | 72,272 | 44,424 | 23,261 | 21,945 |
| | 72,272 | 44,424 | 23,261 | 21,945 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| Deferred tax liabilities to be settled within 12 months | - | - | - | - |
| Deferred tax liabilities to be settled after more than 12 months | 269,078 | 58,802 | - | - |
| | 269,078 | 58,802 | - | - |

## 4. Key management personnel remuneration

### Details of key management personnel

The Key Management Personnel (KMP) of BBW during the year were:

| Name | Role |
|---|---|
| M George | Chief Executive Officer |
| G Dutaillis | Chief Operating Officer |
| G Dover | Chief Financial Officer |
| D Richardson | Company Secretary |

### Key management personnel remuneration

The aggregate remuneration of KMPs of BBW over FY07 and FY08 is set out below:

| | 2008 | 2007 |
|---|---|---|
| Short-term employee benefits | 2,413,250 | 2,391,687 |
| Post-employment benefits (superannuation) | 52,516 | 50,744 |
| Other Long-term benefits / Share based payments | 1,504,837 | 304,201 |
| Total | 3,970,603 | 2,746,632 |

### Options held over BBW securities

No options were granted over BBW securities to KMPs during FY07 and FY08. No BBW securities were acquired by KMPs upon the exercise of options during FY07 and FY08.

### Security holdings in BBW

No BBW securities were granted as remuneration to KMPs during FY07 and FY08. Security holdings of KMPs, including their personally related parties, in BBW securities over the period 1 July 2007 to 30 June 2008 are set out below.

| | Balance 1 July 2007 | Acquired during the year | Sold during the year | Balance 30 June 2008 |
|---|---|---|---|---|
| M George | 500,000 | - | - | **500,000** |
| G Dutaillis | 565,000 | 42,820 | - | **607,820** |
| G Dover | 10,000 | - | - | **10,000** |
| D Richardson | 5,000 | 3,530 | - | **8,530** |

### 4. Key management personnel remuneration *(cont'd)*

Security holdings of KMPs, including their personally related parties, in BBW securities over the period 1 July 2006 to 30 June 2007 are set out below.

| | Balance 1 July 2006 | Acquired during the year | Sold during the year | Balance 30 June 2007 |
|---|---|---|---|---|
| M George | 250,000 | 250,000 | - | **500,000** |
| G Dutaillis | 535,000 | 30,000 | - | **565,000** |
| G Dover | - | 10,000 | - | **10,000** |
| D Richardson | - | 5,000 | - | **5,000** |
| P O'Connell[1] | 357,000 | - | 357,000 | **-** |

1 P O'Connell resigned as Chief Executive Officer of BBW effective 31 December 2006.

**Loans to key personnel and their personally related entities from BBW**

No loans have been made by BBW to KMPs or their personally related parties during FY07 and FY08.

There are no other transactions with KMPs.

## 5. Remuneration of auditors

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008 $** | **2007 $** | **2008 $** | **2007 $** |
| ***PricewaterhouseCoopers: Audit services*** | | | | |
| *Audit and review of the financial report* | 1,601,561 | 862,639 | 52,631 | 30,125 |
| Total remuneration for audit services | 1,601,561 | 862,639 | 52,631 | 30,125 |
| ***PricewaterhouseCoopers: Non-Audit services*** | | | | |
| *Audit related services* | | | | |
| Due diligence services | 373,400 | 132,990 | - | 13 |
| *Taxation services* | | | | |
| Review of transfer pricing arrangements | - | 9,900 | - | 9,900 |
| Total remuneration for non-audit services | 373,400 | 142,890 | - | 9,913 |

## 6. Trade and other receivables

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000 (Restated)** | **2008 $'000** | **2007 $'000** |
| **Current** | | | | |
| Trade receivables and accrued income | 70,414 | 20,028 | - | - |
| Interest receivable | 63 | 170 | 1,221 | 676 |
| Amounts due from related parties (Note 30) | 10,532 | - | 37,352 | 47,456 |
| Goods & Services Tax and other tax receivables | 78,891 | 22,739 | - | 946 |
| Other receivables | 34,313 | 1,058 | - | - |
| | 194,213 | 43,995 | 38,573 | 49,078 |
| **Non-current** | | | | |
| Other receivables | 38,651 | - | - | - |
| Amounts due from related parties (Note 30) | - | - | 1,012,434 | 799,805 |
| | 38,651 | - | 1,012,434 | 799,805 |

## 6. Trade and other receivables *(cont'd)*

### (a) Impairment of trade receivables

There were no impaired trade receivables for the Group or the parent entity in 2008 or 2007.

### (b) Past due but not impaired

As of 30 June 2008, trade receivables of $2,337,000 (2007: $nil) were past due but not impaired. Refer to Note 33 for more information. These relate to a number of independent customers for whom there is no recent history of default.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables, other than $40,000,000 (EUR 26,430,000) (2007: $nil) for bank guarantees issued to the constructor of the Plambeck wind farms in Germany.

### (c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group.

### (d) Foreign exchange and interest rate risk

Information about the Group's and the parent entity exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 33.

### (e) Fair value and credit risk

Due to the nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to Note 33 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

## 7. Prepayments

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000 (Restated)** | **2008 $'000** | **2007 $'000** |
| **Current** | | | | |
| Prepaid operations expenses | 23,367 | 5,382 | - | - |
| Other prepayments | 6,425 | 1,626 | 1,458 | 1,040 |
| | 29,792 | 7,008 | 1,458 | 1,040 |
| **Non-current** | | | | |
| Prepaid operations expenses | 10,754 | 14,109 | - | - |
| Prepaid investment costs | 4,404 | 9,119 | 4,404 | 9,119 |
| | 15,158 | 23,228 | 4,404 | 9,119 |

## 8. Other current assets

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000 (Restated)** | **2008 $'000** | **2007 $'000** |
| Other | 927 | 72 | - | - |
| | 927 | 72 | - | - |

## 9. Financial assets

Financial assets comprise institutional equity partnerships in the United States where the Group does not have the power to govern the financial and operating policies of the entity. During the current year the Directors determined that the Group had obtained the power to govern the financial and operating policies of these partnerships and hence controls or jointly controls these partnerships. For further information see Note 1(a). Revaluations of financial assets up until the date of control were determined using a discounted cash flow analysis.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| **Institutional equity partnerships** | **2008 $'000** | **2007 $'000 (Restated)** | **2008 $'000** | **2007 $'000** |
| **Balance at 1 July** | 488,292 | 107,101 | - | - |
| Additions/ disposals | 360,261 | 423,987 | - | - |
| Distributions received from investments[1] | (17,854) | (28,248) | | |
| Net revaluation | 24,246 | 12,853 | - | - |
| Foreign exchange gain/(loss) | (14,244) | (27,401) | - | - |
| Reclassification upon obtaining control[2] | (642,363) | - | - | - |
| Reclassification upon obtaining joint control[2] | (198,338) | | | |
| **Balance at 30 June** | - | 488,292 | - | - |

[1] Includes distributions paid to minority interests

[2] The transfer to cost of acquisition was $642,363,000 for consolidated entities and $198,338,000 for jointly controlled entities.

Refer to Note 17 for further information on the accounting treatment and Note 28 for provisional values of net assets/liabilities acquired.

## 10. Derivative financial instruments – assets

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000 (Restated)** | **2008 $'000** | **2007 $'000** |
| **Current** | | | | |
| At fair value: | | | | |
| Foreign currency forward contracts – cash flow hedges | 6,650 | 3,464 | 6,650 | 3,464 |
| Interest rate swaps – cash flow hedges | 26,722 | 2,522 | - | 106 |
| | 33,372 | 5,986 | 6,650 | 3,570 |
| **Non-current** | | | | |
| At fair value: | | | | |
| Foreign currency forward contracts – cash flow hedges | 3,177 | 2,036 | 3,177 | 2,036 |
| Interest rate swaps – cash flow hedges | 88,891 | 31,947 | - | 2,610 |
| | 92,068 | 33,983 | 3,177 | 4,646 |

Refer to Note 33 for further information.

## 11. Property, plant and equipment

| | Assets under construction $'000 | Consolidated Plant & Equipment at cost $'000 | Total $'000 |
|---|---|---|---|
| **Gross carrying amount** | | | |
| **Balance at 1 July 2006 (Restated)** | 40,681 | 919,684 | 960,365 |
| Additions | 241,569 | 34,031 | 275,600 |
| Transfers | (41,950) | 41,950 | - |
| Acquisitions through business combinations | - | 82,960 | 82,960 |
| Net foreign currency exchange differences | (1,440) | (66,428) | (67,868) |
| **Balance at 1 July 2007 (Restated)** | 238,860 | 1,012,197 | 1,251,057 |
| Additions | 259,441 | 443,122 | 702,563 |
| Transfers | (111,341) | 111,341 | - |
| Acquisitions through business combinations | 173,223 | 3,139,836 | 3,313,059 |
| Net foreign currency exchange differences | (879) | (202,672) | (203,551) |
| **Balance at 30 June 2008** | 559,304 | 4,503,824 | 5,063,128 |
| | | | |
| **Accumulated depreciation/ amortisation and impairment** | | | |
| **Balance at 1 July 2006 (Restated)** | - | (22,555) | (22,555) |
| Depreciation expense | - | (40,993) | (40,993) |
| Adjustments due to purchase price allocation exercise (i) | | 7,312 | 7,312 |
| Net foreign currency exchange differences | - | 2,475 | 2,475 |
| **Balance at 1 July 2007 (Restated)** | - | (53,761) | (53,761) |
| Depreciation expense | - | (124,975) | (124,975) |
| Net foreign currency exchange differences | - | 3,603 | 3,603 |
| **Balance at 30 June 2008** | - | (175,133) | (175,133) |
| | | | |
| **Net book value** | | | |
| As at 30 June 2007 | 238,860 | 958,436 | 1,197,296 |
| As at 30 June 2008 | 559,304 | 4,328,691 | 4,887,995 |

(i) $7,312,000 relates to an adjustment to the useful life of Property, Plant and Equipment that resulted from a purchase price allocation exercise that was completed during the year ended 30 June 2008 in relation to the Monte Seixo and Serra do Cando wind farms.

The Group has certain assets valued at $55,583,000 which are accounted for under finance leases (2007: $56,036,000). Refer Note 15 and Note 26.

Assets under construction are deemed to be qualifying assets. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalised as part of the cost of that asset.

The parent entity does not have property, plant and equipment.

## 12. Goodwill

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| **Gross carrying amount** | | | | |
| Balance at beginning of financial year | 80,522 | 59,465 | - | - |
| Additional amounts recognised from business combinations occurring during the period (Note 28) | 646,980 | 26,554 | - | - |
| Additional amounts recognised from joint ventures occurring during the period | 49,023 | - | - | - |
| Net foreign currency exchange differences | (23,844) | (5,497) | - | - |
| **Balance at end of financial year** | 752,681 | 80,522 | - | - |

### (a) Provisional allocation of goodwill to cash-generating units

In accordance with AASB 3 *Business Combinations* an exercise to allocate the purchase price paid for each of the acquisitions of the Valdeconejos, Enersis, Almeria, Capital, Hiddestorf, Apfelbaum and US wind farms will take place within a 12 month period from acquisition. This could result in a revision to the amount of goodwill recorded. As a result, at reporting date goodwill has not yet been allocated to a cash generating unit.

### (b) Amounts reclassified following a purchase price reallocation exercise

Goodwill of $99,224,000 was provisionally recognised in relation to the purchase of the Monte Seixo and Serra do Cando wind farms during the year ended 30 June 2007. Following the allocation of the purchase price, goodwill of $72,670,000 has been transferred to intangible assets ($91,905,000), property, plant and equipment ($7,312,000) and deferred tax liability ($26,547,000).

Goodwill of $979,000 was provisionally recognised in relation to the purchase of the Conjuro wind farm during the year ended 30 June 2007. Following the allocation of the purchase price, goodwill of $979,000 has been transferred to intangible assets.

Goodwill of $980,000 was provisionally recognised in relation to the purchase of the Kaarst wind farm during the year ended 30 June 2007. Following the allocation of the purchase price, goodwill of $980,000 has been transferred to intangible assets.

### (c) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation.

A segment-level summary of the goodwill allocation is presented below.

| | Consolidated | |
|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) |
| United States | 210,955 | 39,412 |
| Australia | 50,150 | - |
| Germany | 17,595 | 14,556 |
| Spain | 185,627 | 26,554 |
| Portugal | 288,354 | - |
| | 752,681 | 80,522 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering the life of the wind farm.

**12. Goodwill** *(cont'd)*

**(d) Key assumptions for value-in-use calculations**

The Group makes assumptions in calculating the value-in-use of its CGUs including assumptions around expected wind speeds. In performing these calculations for each CGU, the Group has applied discount rates in the range of 9% - 10% (2007: 8% - 9%).The discount rates used reflect specific risks relating to the relevant countries in which they operate. In determining future cash flows, the Group has used Long-term Mean Energy Production estimates ("P50") to reflect the expected performance of the assets beyond the budget period. The Long-term Mean Energy Production is estimated by independent technical consultants on behalf of the Group for each wind farm. For wind farms with power purchase agreements, future growth rates are based on CPI in the relevant jurisdiction. For wind farms subject to market prices, future growth rates are based on long term industry price expectations.

Management does not consider a change in any of the key assumptions to be reasonably possible.

## 13. Intangible assets

| | Consolidated Framework agreement $'000 | Consolidated Project-related agreements and licences $'000 | Consolidated Total $'000 |
|---|---|---|---|
| **Balance at 1 July 2006 (Restated)** | 5,100 | 170,675 | 175,775 |
| Transfers | (300) | - | (300) |
| Adjustments due to purchase price allocation exercise (i) | | 93,864 | 93,864 |
| Net foreign currency exchange differences | - | (9,721) | (9,721) |
| **Balance at 1 July 2007 (Restated)** | 4,800 | 254,818 | 259,618 |
| Additions | - | 535 | 535 |
| Net foreign currency exchange differences | - | 7,778 | 7,778 |
| **Balance at 30 June 2008** | 4,800 | 263,131 | 267,931 |
| | | | |
| **Accumulated amortisation and impairment** | | | |
| **Balance at 1 July 2006 (Restated)** | (1,514) | (2,750) | (4,264) |
| Amortisation expense (ii) | (1,638) | (3,378) | (5,016) |
| Net foreign currency exchange differences | - | 365 | 365 |
| **Balance at 1 July 2007 (Restated)** | (3,152) | (5,763) | (8,915) |
| Amortisation expense (ii) | (1,367) | (7,933) | (9,300) |
| Net foreign currency exchange differences | - | (191) | (191) |
| **Balance at 30 June 2008** | (4,519) | (13,887) | (18,406) |
| | | | |
| **Net book value** | | | |
| As at 30 June 2007 | 1,648 | 249,055 | 250,703 |
| As at 30 June 2008 | 281 | 249,244 | 249,525 |

| | Parent Entity Framework agreement | Parent Entity Project-related agreements and licences | Parent Entity Total |
|---|---|---|---|
| **Balance at 1 July 2006** | 5,100 | - | 5,100 |
| Transfers | (300) | - | (300) |
| **Balance at 1 July 2007** | 4,800 | - | 4,800 |
| **Balance at 30 June 2008** | 4,800 | - | 4,800 |
| | | | |
| **Accumulated amortisation and impairment** | | | |
| **Balance at 1 July 2006** | (1,514) | - | (1,514) |
| Amortisation expense (ii) | (1,638) | - | (1,638) |
| **Balance at 1 July 2007** | (3,152) | - | (3,152) |
| Amortisation expense (ii) | (1,367) | - | (1,367) |
| **Balance at 30 June 2008** | (4,519) | - | (4,519) |
| | | | |
| **Net book value** | | | |
| As at 30 June 2007 | 1,648 | - | 1,648 |
| As at 30 June 2008 | 281 | - | 281 |

(i) Transfers - project-related agreements and licences

(a) $88,514,000 during the year ended 30 June 2007 results from a purchase price allocation exercise that was completed during the year ended 30 June 2008 in relation to the Monte Seixo and Serra do Cando wind farms.

(b) $3,489,000 during the year ended 30 June 2007 results from a purchase price allocation exercise that was completed during the year ended 30 June 2008 in relation to the Conjuro wind farm.

(c) $1,861,000 during the year ended 30 June 2007 results from a purchase price allocation exercise that was completed during the year ended 30 June 2008 in relation to the Kaarst wind farm.

(ii) Amortisation expense is included in the line item Depreciation and Amortisation in the income statement

## 14. Trade and other payables

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| **Current** | | | | |
| Trade payables | 246,078 | 48,980 | 15,883 | 1,676 |
| Amounts due to related parties (Note 30) | 34,965 | 203,269 | - | 5,907 |
| Interest payable | 3,356 | 292 | 1,193 | 5,143 |
| Goods and services tax payable | 2,006 | 5,764 | 2,083 | - |
| Other | 9,987 | 3,040 | 471 | - |
| | 296,392 | 261,345 | 19,630 | 12,726 |
| **Non-current** | | | | |
| Amounts due to related parties (Note 30) | 17,196 | - | - | - |
| | 17,196 | - | - | - |

**Risk exposure**

Information about the Group's and the parent entity's exposure to foreign exchange risk is provided in Note 33.

## 15. Borrowings

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| **Current** | | | | |
| *Unsecured* | | | | |
| **At amortised cost:** | | | | |
| Loans from related parties* | - | - | - | 2,580 |
| | - | - | - | 2,580 |
| *Secured* | | | | |
| **At amortised cost:** | | | | |
| Global Facility (i) | 114,576 | 36,902 | - | - |
| Portugal Enersis Facility | 60,772 | - | - | - |
| | 175,348 | 36,902 | - | - |
| Finance lease liabilities (ii) | 2,573 | 2,339 | - | - |
| | 177,921 | 39,241 | - | 2,580 |
| **Non-current** | | | | |
| *Unsecured* | | | | |
| **At amortised cost:** | | | | |
| Loans from related parties | - | - | 1,177,253 | 955,534 |
| | - | - | 1,177,253 | 955,534 |
| *Secured* | | | | |
| **At amortised cost:** | | | | |
| Global Facility (i) | 2,173,472 | 1,280,572 | - | - |
| Portugal Enersis Facility | 1,150,808 | - | - | - |
| Capitalised loan costs | (30,147) | (28,339) | - | - |
| | 3,294,133 | 1,252,233 | - | - |
| Finance lease liabilities (ii) | 48,171 | 49,009 | - | - |
| | 3,342,304 | 1,301,242 | 1,177,253 | 955,534 |

* Further information relating to loans from related parties is set out in Note 30.

**15. Borrowings** (*cont.*)

**(i) Debt facilities at 30 June 2008**

The Group completed a refinancing and re-leveraging of its global wind farm portfolio in May 2007, aggregating project, asset and corporate level debt across various jurisdictions into a single facility ("Global Facility"). The facility size has increased from EUR 1,030,607,000 ($1,689,104,000) to EUR 1,793,790,000 ($2,939,916,000) during the year to 30 June 2008.

There is no asset level security, however each borrower under the Global Facility is a guarantor of the facilities. In addition, lenders have first ranking security over the issued share capital of, or other ownership interest in:

- the borrowers other than BBWPL, and
- the direct subsidiaries of the borrowers, which are holding entities of each wind farm in BBW's portfolio.

Drawings under the Global Facility are in multiple currencies to match the underlying currencies of BBW's investments and provide a natural foreign currency hedge in relation to the debt servicing of amounts drawn under the Global Facility. The base currency of the Global Facility is the Euro.

The Global Facility has a 15 year term and has been provided by Banco Espirito Santo de Investimento, S.A. (Espírito Santo Investment), Millennium investment banking (Banco Millennium BCP Investimento, S.A.), Bank of Scotland (HBOS), Dexia Credit Local, KFW IPEX Bank Gmbh, The Governor and Company of the Bank of Ireland, Cooperative Centrale Raiffeisen Boerenleenbank B.A.(RABO Bank), DEPFA Bank PLC, KBC Bank N.V.,Natixis Bank, The Royal Bank of Scotland, Commonwealth Bank of Australia, IKB Deutsche Industriebank AG, Westpac Banking Corporation, Societe Generale Bank, Banco Santander S.A., Hypovereinsbank Unicredit Group

BBW purchased a controlling stake in the Portuguese Enersis group of wind farms in December 2007. The Enersis wind farms have a EUR 739,246,000 debt facility. This debt facility is secured over the Portuguese Enersis wind farms and has no recourse over any other assets within the Group. The facility matures in 2025.

| **Facilities at 30 June 2008** | **Original Commitment** | **Undrawn Available balance** |
|---|---|---|
| | €'000 | €'000 |
| BBW Global Facility | 1,793,790 | 273,199 |
| Portugal Enersis Facility | 739,246 | - |
| | **2,533,036** | **273,199** |

The total funds drawn down by currency and exchanged at the year end rate are presented in the following table:

| | **Current Balance** | **Current Balance** |
|---|---|---|
| | **(Local curr '000)** | **(AUD '000)** |
| **Australian Dollars** | 568,823 | 568,823 |
| **Euro** | 1,428,809 | 2,341,734 |
| **US Dollars** | 567,334 | 589,071 |
| | | **3,499,628** |

**15. Borrowings** (*cont.*)

The Group pays interest under both facilities each six months based on Euribor (Euro drawings), BBSY (Australian Dollar) or LIBOR (other currencies), plus a margin. The current average margin the Group pays on its borrowings is 87 basis points. It is the Group's policy to use financial instruments to fix the interest rate for a portion of the loan. Repayments under the facilities are due each six months until the end of the term.

**(ii) Finance lease liabilities**

Refer Note 26.

**16. Derivative financial instruments - liabilities**

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000 (Restated)** | **2008 $'000** | **2007 $'000** |
| **Current** | | | | |
| At fair value: | | | | |
| Foreign currency forward contracts – cash flow hedges | 78 | - | 78 | - |
| Interest rate swaps – cash flow hedges | 8,996 | 264 | - | - |
| | 9,074 | 264 | 78 | - |
| **Non-current** | | | | |
| At fair value: | | | | |
| Foreign currency forward contracts – cash flow hedges | 75 | - | 75 | - |
| Interest rate swaps – cash flow hedges | 15,218 | - | - | - |
| | 15,293 | - | 75 | - |

Refer to Note 33 for further information.

## 17. Institutional equity partnerships classified as liabilities

### Nature of institutional equity partnerships

The Group's relationship with the non-managing members and managing members (Class A and Class B institutional investors respectively) is established through a limited liability company operating agreement that apportions the cash flows generated by the wind farms between the Class B institutional investors (the Group's ownership of these varies from 50%-100%) and allocates the tax benefits, which include Production Tax Credits (PTC) and accelerated depreciation, largely to the Class A institutional investors.

The Class A institutional investors purchase their partnership interests for an upfront cash payment. This payment is fixed so that the investors, as of the date that they purchase their interest, anticipate earning an agreed targeted internal rate of return by the end of the ten year period over which PTCs are generated. This anticipated return is computed based on the total anticipated benefit that the institutional investors will receive and includes the value of PTCs, allocated taxable income or loss and cash distributions received.

Under these structures, all operating cash flow is allocated to the Class B institutional investor until the earlier of a fixed date, or when the Class B institutional investors recover the amount of invested capital. This is expected to occur between five to ten years from the initial closing date. Thereafter, all operating cash flow is allocated to the Class A institutional investors until they receive the targeted internal rate of return (the "Reallocation Date").

Prior to the Reallocation Date, a significant part of the tax income and benefits generated by the partnerships are allocated to the Class A institutional investor, with any remaining benefits allocated to the Class B institutional investors.

After the Reallocation Date, the Class A institutional investor retains a small minority interest for the duration of its membership in the structure. The Group also has an option to purchase the Class A institutional investor's residual interests at fair market value on the Reallocation Date.

Investments in these partnership structures are classified as liabilities as the partnerships have limited lives and the allocation of income earned is governed by contractual agreements over the life of the investment. Whilst classified as liabilities it is important to note:

- Should future operational revenues from the US wind farm investments be insufficient, there is no contractual obligation on the group to repay the liabilities.
- Institutional balances outstanding (Class A and Class B minority interests) do not impact the Group's lending covenants or interest cover ratios.
- There is no exit mechanism for institutional investors consequently there is no re-financing risk.

## 17. Institutional equity partnerships classified as liabilities *(cont.)*

### Date of control

For certain jointly controlled wind farms where control has been determined at an earlier date the Group has corrected the prior year comparatives and proportionately consolidated from the deemed acquisition date. Refer to Note 1(a) for more details.

As of 1 January 2008, the Group has determined that it has the ability to control or, with other Class B Institutional Investors ("Other Class B Members"), jointly control the wind farm entities. For these situations, the Group has consolidated or proportionately consolidated from 1 January 2008 onwards. For more details of consolidated US wind farm entities, see Note 27. For more details of jointly controlled wind farm entities, see Note 34.

| | Class A members | | Class B members | | Total | |
|---|---|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 (Restated) |
| **Class A and Class B liabilities:** | | | | | | |
| **At 1 July** | 149,901 | 189,912 | - | - | 149,901 | 189,912 |
| Institutional liabilities acquired on consolidation of US wind farm investments | 1,003,486 | - | 84,351 | - | 1,087,837 | - |
| Distributions (Class B) | - | - | (10,032) | - | (10,032) | - |
| Value of benefits provided – production tax credits (Class A) | (52,824) | (16,013) | - | - | (52,824) | (16,013) |
| Value of benefits provided – tax losses (Class A)* | (75,571) | (16,596) | - | - | (75,571) | (16,596) |
| Allocation of return on outstanding balance (Class A) | 39,522 | 12,960 | - | - | 39,522 | 12,960 |
| Movement in residual interest (Class A) | 5,108 | 2,330 | - | - | 5,108 | 2,330 |
| Minority interest (Class B) | - | - | 4,588 | - | 4,588 | - |
| Foreign exchange gain/(loss) | (100,220) | (22,692) | (7,467) | - | (107,687) | (22,692) |
| **At 30 June** | 969,402 | 149,901 | 71,440 | - | 1,040,842 | 149,901 |
| | | | | | | |
| **Deferred revenue:** | | | | | | |
| **At 1 July** | | | | | 55,628 | 45,295 |
| Resulting from business combinations during the period | | | | | 147,565 | - |
| Benefits deferred during the period | | | | | 88,228 | 17,349 |
| Foreign exchange gain/(loss) | | | | | (25,659) | (7,016) |
| **At 30 June** | | | | | 265,762 | 55,628 |
| | | | | | 1,306,604 | 205,529 |

* This comprises the following:

| | 2008 $'000 | 2007 $'000 (Restated) |
|---|---|---|
| Total Taxable Income/Loss before accelerated tax depreciation | 29,496 | 4,992 |
| Accelerated tax depreciation | (105,067) | (21,588) |
| **Tax loss** | (75,571) | (16,596) |

## 18. Capitalised borrowing costs

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| Borrowing costs capitalised during the financial year | 22,844 | 10,500 | - | - |
| Weighted average capitalisation rate on funds borrowed generally | 7.1% | 6.3% | - | - |

Where borrowing costs are directly attributable to the construction of a qualifying asset, they are capitalised as part of the cost of that asset.

## 19. Contributed equity

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | No'000 | $'000 | No'000 | $'000 |
| **Fully paid stapled securities/shares** | | | | |
| Balance as at 1 July 2006 | 575,302 | 706,134 | 575,302 | 4,454 |
| Capital distribution | - | (65,596) | - | - |
| Distribution reinvestment plan (i) | 10,044 | 15,082 | 10,044 | - |
| Lake Bonney Stage 2 (ii) | 625 | 1,112 | 625 | - |
| Institutional placement (iii) | 87,100 | 156,780 | 87,100 | 16 |
| Transaction costs arising on security/share issue | - | (3,187) | - | - |
| **Balance as at 30 June 2007** | 673,071 | 810,325 | 673,071 | 4,470 |
| | | | | |
| **Attributable to:** | | | | |
| Equity holders of the parent | | 4,470 | | 4,470 |
| Equity holders of the other stapled securities (minority interests) | | 805,855 | | - |
| | | 810,325 | | 4,470 |
| | | | | |
| Balance as at 1 July 2007 | 673,071 | 810,325 | 673,071 | 4,470 |
| Capital distribution | - | (103,552) | - | - |
| Distribution reinvestment plan (i) | 20,042 | 29,062 | 20,042 | 3 |
| Alinta scheme of arrangement (iv) | 130,148 | 211,057 | 130,148 | 21 |
| Security purchase plan (v) | 26,935 | 46,281 | 26,935 | 5 |
| Institutional placement (iii) | 4,350 | 7,830 | 4,350 | 1 |
| Capital Wind Farm acquisition (vi) | 14,055 | 24,480 | 14,055 | 2 |
| Transaction costs arising on security/share issue | - | (11,073) | - | (1) |
| **Balance as at 30 June 2008** | 868,601 | 1,014,410 | 868,601 | 4,501 |
| | | | | |
| **Attributable to:** | | | | |
| Equity holders of the parent | | 4,501 | | 4,501 |
| Equity holders of the other stapled securities (minority interests) | | 1,009,909 | | - |
| | | 1,014,410 | | 4,501 |

Stapled securities entitle the holder to participate in dividends from BBWPL and BBWPB and in distributions from BBWPT. The holder is entitled to participate in the proceeds on winding up of the company in proportion to the number of and amounts paid on the securities held.

## 19. Contributed equity *(cont'd)*

### (i) Distribution reinvestment plan

BBW has established a distribution reinvestment plan under which holders of stapled securities may elect to have all or part of their distribution entitlements satisfied by the issue of new stapled securities rather than by being paid in cash. To date, securities have been issued under the plan at a 2.5% discount to the weighted average price of BBW securities on the ASX over the 10 trading days ending on the trading day which is 3 trading days before the date the stapled securities are due to be allotted.

On 14 September 2007, BBW issued 6,267,665 stapled securities at a price of $1.6151 per security in relation to the payment of the final distribution for the year ended 30 June 2007.

On 18 March 2008, BBW issued 13,774,279 stapled securities at a price of $1.3748 per security in relation to the payment of the interim distribution for the year ended 30 June 2008.

### (ii) Lake Bonney stage 2

Under an arrangement to provide certain management services to the Lake Bonney stage 2 wind farm, 625,287 fully paid stapled securities were issued to NPP Projects II LLC on 10 April 2007 at a price of $1.778 per stapled security.

### (iii) Institutional placement

On 4 May 2007, BBW issued 87,100,000 stapled securities pursuant to an institutional placement. Each stapled security was priced at $1.80 and total proceeds amounted to $156,780,000 before costs of $3,187,000.

In addition to the institutional placement, Babcock & Brown Limited (B&B) agreed that it would subscribe for 4,350,000 stapled securities at the same price as the institutional placement conditional upon the approval of BBW securityholders at the Annual General Meeting held on 9 November 2007.

Securityholders approved the issue and on 14 November 2007 BBW issued 4,350,000 stapled securities to B&B at a price of $1.80 per stapled security.

### (iv) Alinta scheme of arrangement

On 30 March 2007, BBW announced that it was a member of the consortium bidding for the whole of the issued capital of Alinta Limited via a scheme of arrangement.

On 31 August 2007, under the scheme of arrangement, BBW issued 128,754,789 stapled securities at a price of $1.6214 net of transaction costs of $9.5 million to Alinta shareholders.

On 4 September 2007 a further 1,392,852 stapled securities were issued at a price of $1.65 per security to fund BBW's share of payments to option holders in Alinta Limited as foreshadowed in the Scheme Booklet resulting in a total of $211m gross proceeds from both stapled security issuances furing the year.

### (v) Security purchase plan

On 18 September 2007, BBW announced a Security Purchase Plan enabling existing shareholders to acquire up to $5,000 in value of additional BBW securities at a discount to the market price. Pursuant to this plan, BBW issued 26,935,224 stapled securities on 24 October 2007 at a price of $1.7188 per security.

### (vi) Capital wind farm acquisition

On 20 December 2007, BBW issued 7,294,836 stapled securities at a price of $1.7766 per security as part consideration for the acquisition of the Capital wind farm. Pursuant to the Sale and Purchase Agreement a further 6,760,167 stapled securities were issued on 3 January 2008 at a price of $1.7041 per security.

## 20. Reserves

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| Foreign currency translation | (43,512) | (26,009) | - | - |
| Hedging | 28,525 | 12,396 | 5,919 | 3,705 |
| Acquisition | (49,442) | (49,442) | - | - |
| | (64,429) | (63,055) | 5,919 | 3,705 |
| **Attributable to:** | | | | |
| Equity holders of the parent | (42,794) | (41,420) | 5,919 | 3,705 |
| Equity holders of the other stapled securities (minority interests) | (21,635) | (21,635) | - | - |
| | (64,429) | (63,055) | 5,919 | 3,705 |
| **Foreign currency translation reserve** | | | | |
| Balance at beginning of financial year | (26,009) | 5,388 | - | - |
| Translation of foreign operations | (29,997) | (51,273) | - | - |
| Forward exchange contracts | 3,160 | 7,398 | - | - |
| Deferred tax arising from translation | 9,334 | 12,478 | - | - |
| Balance at end of financial year | (43,512) | (26,009) | - | - |

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in Note 1(n). The reserve is recognised in profit and loss when the net investment is disposed of.

## 20. Reserves *(cont'd)*

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| **Hedging reserve** | | | | |
| Balance at beginning of financial year | 12,396 | 8,551 | 3,705 | (1,357) |
| Movement increasing / (decreasing) recognised: | | | | |
| Forward exchange contracts | 1,106 | (2,006) | 4,902 | 7,398 |
| Interest rate swaps | 22,154 | 7,500 | - | (13) |
| Deferred tax arising on hedges | (7,131) | (1,649) | (2,688) | (2,323) |
| Balance at end of financial year | 28,525 | 12,396 | 5,919 | 3,705 |

The hedging reserve is used to record movements on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 1(k). Amounts are recognised in profit and loss when the associated hedged transaction settles.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| **Acquisition reserve** | | | | |
| Balance at beginning of financial year | (49,442) | (49,442) | - | - |
| Balance at end of financial year | (49,442) | (49,442) | - | - |

Prior to the acquisition of the remaining 25% of Walkaway Wind Power Pty Limited ("WWP"), BBWPL owned 75% of the share capital of WWP and consolidated accordingly. Therefore, the acquisition of the remaining 25% did not result in a change of control but was an acquisition of the minority shareholders.

These transactions are treated as transactions between owners of the Group. Additional goodwill is recognised only to the extent that it represents goodwill which was attributable to the minority interest at the acquisition date but is now attributable to the parent entity. No such goodwill was recognised in relation to WWP. The difference between the purchase consideration and the amount by which minority interest is adjusted was recognised in the acquisition reserve.

## 21. Retained earnings

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| Balance at beginning of financial year | (8,326) | (13,918) | (22,039) | (8,721) |
| Net profit / (loss) attributable to stapled security holders | 27,224 | 5,592 | (6,411) | (13,318) |
| Balance at end of financial year | 18,898 | (8,326) | (28,450) | (22,039) |
| **Attributable to:** | | | | |
| Equity holders of the parent | 8,238 | (18,287) | (28,450) | (22,039) |
| Equity holders of the other stapled securities (minority interests) | 10,660 | 9,961 | - | - |
| | 18,898 | (8,326) | (28,450) | (22,039) |

## 22. Earnings per security/ share

| | Consolidated 2008 Cents per security | 2007 Cents per security (Restated) |
|---|---|---|
| **Basic and diluted earnings per stapled security/ parent entity share:** | | |
| Parent entity share | 3.2 | 0.0 |
| Stapled security | 3.3 | 0.9 |

The earnings and weighted average number of securities/ shares used in the calculation of basic and diluted earnings per security/ share are as follows:

| | 2008 $'000 | 2007 $'000 (Restated) |
|---|---|---|
| Earnings attributable to the parent entity share holders | 26,525 | (162) |
| Earnings attributable to the stapled security holders | 27,224 | 5,592 |
| | **2008 No.'000** | **2007 No.'000 (Restated)** |
| Weighted average number of securities/ shares for the purposes of basic and diluted earnings per security/ share | 818,301 | 594,227 |

## 23. Distributions paid

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Cents per security** | **Total $'000** | **Cents per security** | **Total $'000** |
| **<u>Recognised amounts</u>** | | | | |
| **Ordinary securities** | | | | |
| Final distribution in respect of 2007 year of 6.25 cents per stapled security (2007: 5.1 cents) paid in September 2007 (2007: September 2006), 100% tax deferred (2007: 100% tax deferred) | 6.25 | 42,067 | 5.10 | 29,340 |
| Interim distribution in respect of 2008 year of 7.25 cents (2007: 6.25 cents) per stapled security paid in March 2008 (2007: March 2007), 100% tax deferred (2007: 100% tax deferred) | 7.25 | 61,485 | 6.25 | 36,256 |
| | | 103,552 | | 65,596 |
| Distributions paid in cash or satisfied by the issue of new stapled securities under the Distribution Reinvestment Plan during the year ended 30 June 2008 and the year ended 30 June 2007 were as follows: | | | | |
| Paid in cash | | 74,490 | | 50,513 |
| Satisfied by the issue of stapled securities | | 29,062 | | 15,083 |
| | | 103,552 | | 65,596 |

On 28 August 2008, the Directors of BBW declared a final distribution in respect of the year ended 30 June 2008 of 7.25 cents per stapled security (2007: 6.25 cents), 100% tax deferred. The amount that will be paid on 18 September 2008 (2007: 14 September 2007) will be $62,974,000 (2007: $42,067,000). As the distribution was declared subsequent to 30 June 2008 no provision has been included as at 30 June 2008.

No franking credits have been generated by the parent entity.

## 24. Commitments for expenditure

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| **(a) Capital expenditure commitments** | | | | |
| Not later than 1 year | 509,186 | 158,421 | - | - |
| Later than 1 year and not later than 5 years | 8,400 | 1,900 | - | - |
| | 517,586 | 160,321 | - | - |

**(b) Lease commitments**

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in Note 25 to the financial statements.

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| **(c) Other expenditure commitments** | | | | |
| <u>Other</u> | | | | |
| Not later than 1 year | 3,816 | 3,666 | - | - |
| Later than 1 year and not later than 5 years | 15,290 | 15,078 | - | - |
| Later than 5 years | 51,311 | 52,695 | - | - |
| | 70,417 | 71,439 | - | - |

Includes commitments relating to operations and maintenance arrangements and connection agreements.

## 25. Contingent liabilities and contingent assets

| **Contingent liabilities** | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| Letters of credit | 45,140 | 9,663 | - | - |
| Guarantees | 84,505 | 89,753 | - | 78,587 |
| | 129,645 | 99,416 | - | 78,857 |

Guarantees generally relate to wind farm construction, operations and decommissioning. No liability was recognised by the parent entity of the Group in relation to these guarantees, as their combined fair value is immaterial.

**Framework agreements**

The Group has entered into framework agreements which provide it with access to a potential portfolio of wind farms of up to approximately 600MW of installed capacity in Spain and Germany in the period through to the end of 2009.

Wind farms supplied under these framework agreements must satisfy certain contractual conditions before the Group is obliged to acquire under the terms of the agreement. A number of the potential projects are still in the development phase and consequently these conditions precedent may take longer than expected or in fact may never become satisfied. The Group was not obliged to purchase any wind farms under these framework agreements as at 30 June 2008. Since 30 June 2008 through to the date of this report the Group has acquired an interest in a German wind farm (8MW) under these framework agreements.

## 25. Contingent liabilities and contingent assets *(cont.)*

*Gamesa Framework Agreement*

BBWPL has entered into a Framework Agreement with Babcock & Brown (UK) Holdings Limited under which BBWPL has secured rights and assumed obligations corresponding to rights and obligations under an agreement between Babcock & Brown (UK) Holdings Limited and Gamesa Energia S.A. ("Gamesa") to acquire wind farms in Spain and Germany with a total installed capacity of up to approximately 350MW in 2008 and 2009 subject to certain conditions being satisfied. Gamesa is a Spanish listed company with a global network of offices that is one of the world's largest manufacturers and suppliers of technologically advanced products and services in the renewable energy sector.*Plambeck Framework Agreement*

BBWPL has entered into a Framework Agreement with Plambeck Neue Energien AG ("Plambeck") to acquire a portfolio of wind farms comprising potentially up to approximately 250MW through FY08 and FY09.

## 26. Leases

**Finance leases**

***Leasing arrangements***

Finance leases relate to wind turbine generators at the Eifel wind farm and have a term of 14 years with an option to purchase at the end of the term.

***Finance lease liabilities***

| | Minimum future lease payments | | | |
|---|---|---|---|---|
| | Consolidated | | Parent Entity | |
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| **Commitments in relation to finance leases are payable as follows:** | | | | |
| Not later than 1 year | 5,549 | 5,079 | - | - |
| Later than 1 year and not later than 5 years | 22,198 | 20,314 | - | - |
| Later than five years | 32,028 | 46,789 | - | - |
| Minimum future lease payments* | 59,775 | 72,182 | - | - |
| Less future finance charges | (9,031) | (20,834) | - | - |
| Present value of minimum lease payments | 50,744 | 51,348 | - | - |
| Included in the financial statements as: | | | | |
| Current borrowings (Note 15) | 2,573 | 2,339 | - | - |
| Non-current borrowings (Note 15) | 48,171 | 49,009 | - | - |
| | 50,744 | 51,348 | - | - |

* Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

**Operating leases**

The Group leases land for its wind farms under non-cancellable operating leases expiring within 20 to 55 years. The leases have varying terms, escalation clauses and renewal rights.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 |
| **Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:** | | | | |
| Not later than 1 year | 9,024 | 3,829 | - | - |
| Later than 1 year and not later than 5 years | 40,038 | 15,682 | - | - |
| Later than 5 years | 260,028 | 76,981 | - | - |
| | 309,090 | 96,492 | - | - |

## 27. Subsidiaries

| | Name of entity | Country of incorporation | Ownership interest** 2008 % | 2007 % |
|---|---|---|---|---|
| | **Parent entity** | | | |
| * | Babcock & Brown Wind Partners Limited | Australia | | |
| | **Other stapled entities** | | | |
| | Babcock & Brown Wind Partners (Bermuda) Limited | Bermuda | | |
| | Babcock & Brown Wind Partners Trust | Australia | | |
| | **Subsidiaries of BBW** | | | |
| | B&B Blue Canyon LLC | USA | 100% | 100% |
| | B&B Caprock LLC | USA | 80% | 80% |
| | B&B Combine Hills LLC | USA | 100% | 100% |
| | B&B Eifel UK Ltd | UK | 100% | 100% |
| | B&B Kumeyaay LLC | USA | 100% | 100% |
| * | B&B LB2 Pty Limited | Australia | 100% | 100% |
| | B&B Sweetwater 1 LLC | USA | 100% | 100% |
| | B&B Sweetwater 2 LLC | USA | 100% | 100% |
| | B&B Sweetwater 3 LLC | USA | 100% | 100% |
| * | B&B Walkaway Pty Limited | Australia | 100% | 100% |
| | B&B Walkaway Trust | Australia | 100% | 100% |
| | B&B Wind Park Jersey LLC | USA | 100% | 100% |
| * | B&B Wind Pty Limited | Australia | 100% | 100% |
| * | BBWP CWF Pty Limited | Australia | 100% | - |
| * | BBWP Europe Pty Limited | Australia | 100% | 100% |
| * | BBWP Europe 2 Pty Limited | Australia | 100% | 100% |
| * | BBWP Europe 3 Pty Limited | Australia | 100% | 100% |
| * | BBWP Europe 4 Pty Limited | Australia | 100% | 100% |
| * | BBWP Europe 5 Pty Limited | Australia | 100% | - |
| | BBWP Europe Holdings Malta I Limited | Malta | 100% | 100% |
| | BBWP Europe Holdings Malta II Limited | Malta | 100% | 100% |
| | BBWP Europe Holdings Lux SARL | Luxembourg | 100% | 100% |
| | BBWP Europe Holdings 2 SARL | Luxembourg | 100% | - |
| | BBWP Europe KG Holdings II Lux SARL | Luxembourg | 100% | 100% |
| | BBWP Spain Holdings Lux SARL | Luxembourg | 100% | 100% |
| * | BBWP Finance (Aust) Pty Limited | Australia | 100% | 100% |
| * | BBWP Finance (Germany) Pty Limited | Australia | 100% | 100% |
| | BBWP Finance Lux SARL | Luxembourg | 100% | 100% |
| * | BBWP Germany Holdings Pty Limited | Australia | 100% | 100% |
| * | BBWP Germany Holdings 2 Pty Limited | Australia | 100% | - |
| * | BBWP Germany Holdings 3 Pty Limited | Australia | 100% | - |
| | BBWP Gesa Holding GmbH & Co KG | Germany | 100% | - |
| | BBWP Holdings (Bermuda) Limited | Bermuda | 100% | - |
| * | BBWP Investments Pty Limited | Australia | 100% | - |
| * | BBWP US Partnership | USA | 100% | 100% |
| | BBWP US Corporation | USA | 100% | 100% |
| * | BBWP (US) Pty Limited | Australia | 100% | 100% |
| * | BBWP (US) 2 Pty Limited | Australia | 100% | 100% |
| | Babcock & Brown Riva Holdings SARL | Luxembourg | 50% | - |
| * | Babcock & Brown Renewable Power Investments Trust | Australia | 100% | - |
| * | Babcock & Brown Renewable Power Investments Pty Limited | Australia | 100% | - |
| | Babcock & Brown Wind Partners France SAS | France | 100% | 100% |
| | Babcock & Brown Wind Partners US LLC | USA | 100% | 100% |
| | Babcock & Brown Wind Partners (Spain) S.L. | Spain | 100% | 100% |
| | Babcock & Brown Wind Portfolio I LLC | USA | 100% | 100% |
| | Babcock & Brown Wind Portfolio Holdings I LLC | USA | 100%[1] | - |

## 27. Subsidiaries _(cont.)_

| | Name of entity | Country of incorporation | Ownership interest 2008 % | 2007 % |
|---|---|---|---|---|
| | Caprock Wind LLC | USA | 100%[1] | - |
| | CCWE Holdings LLC | USA | 67%[1] | - |
| | Crescent Ridge Holdings LLC | USA | 75%[1] | - |
| | Coswig GmbH | Germany | 100% | - |
| * | CS CWF Trust | Australia | 100% | - |
| * | CS Walkaway Pty Limited | Australia | 100% | 100% |
| | CS Walkaway Trust | Australia | 100% | 100% |
| | Eschweiler GmbH | Germany | 100% | - |
| | Global Wind Partners UK Ltd | UK | 100% | 100% |
| | Global Wind Partners UK 2 Ltd | UK | 100% | 100% |
| | Global Wind Partners UK 3 Ltd | UK | -[2] | 100% |
| | Global Wind Partners UK 4 Ltd | UK | -[3] | 100% |
| * | GWP Europe Pty Limited | Australia | 100% | 100% |
| * | GWP Europe 2 Pty Limited | Australia | 100% | 100% |
| * | GWP Walkaway Pty Limited | Australia | 100% | 100% |
| | Kumeyaay Holdings LLC | USA | 100%[1] | - |
| * | Lake Bonney Wind Power Pty Limited | Australia | 100% | 100% |
| * | Lake Bonney Wind Power 2 Pty Limited | Australia | 100% | 100% |
| * | Lake Bonney Wind Power 3 Pty Limited | Australia | 100% | 100% |
| * | NPP LB2 LLC | USA | 100% | 100% |
| * | NPP Projects I LLC | USA | 100% | 100% |
| * | NPP Projects V LLC | USA | 100% | 100% |
| * | NPP Walkaway Pty Limited | Australia | 100% | 100% |
| * | NPP Walkaway Trust | Australia | 100% | 100% |
| | Olivento S.L. | Spain | 100% | 100% |
| | Pebble Consultoria e Investimento Sociedade Unipessoal Lda | Portugal | 50% | - |
| | Renewable Power Ventures Investment Trust | Australia | 100% | 100% |
| | Renewable Power Ventures Pty Limited | Australia | 100% | - |
| | Sistemas Energeticos El Carrascal S.A. | Spain | 100% | - |
| | Sistemas Energeticos El Chaparral S.A. | Spain | 100% | - |
| | Sistemas Energeticos El Cerradilla S.A. | Spain | 100% | - |
| | Sistemas Energeticos Lamata S.A. | Spain | 100% | - |
| | Sistemas Energeticos Montes de Conjuro S.A.U. | Spain | 100% | 70% |
| | Sistemas Energeticos Abadia S.A.U. | Spain | 100% | 100% |
| | Societe d'Exploitation du Parc Eolien de Fond Du Moulin SARL | France | 100% | 100% |
| | Societe d'Exploitation du Parc Eolien de Mont Felix SARL | France | 100% | 100% |
| | Societe d'Exploitation du Parc Eolien Le Marquay SARL | France | 100% | 100% |
| | Societe d'Exploitation du Parc Eolien Le Chemin Vert SARL | France | 100% | 100% |
| | Societe d'Exploitation du Parc Eolien Les Trentes SARL | France | 100% | 100% |
| | Societe d'Exploitation du Parc Eolien Sole de Bellevue SARL | France | 100% | 100% |
| | Sonnenberg GmbH & Co KG | Germany | 100% | - |
| | Walkaway Wind Power Pty Limited | Australia | 100% | 100% |
| | Windpark Eifel GmbH & Co KG | Germany | 100% | 100% |
| | Windpark Hiddestorf GmbH & Co KG | Germany | 100% | - |
| * | Windpark Kaarst GmbH & Co KG | Germany | 100% | 100% |
| | Windpark Niederrhein GmbH & Co KG | Germany | 99% | 99% |

* Denotes a member of the BBWPL tax consolidated group.

** The proportion of ownership interest is equal to the proportion of voting power held.

[1] Class B Member interest

[2] Dissolved 15 January 2008

[3] Dissolved 5 February 2008

## 28. Acquisition of businesses

The provisional values of net assets/ liabilities acquired through business combinations are provided in the table below.

| **$'000** | **Conjuro (i)** | **Valde-conejos (ii)** | **Enersis Portfolio (iii)** | **Almeria Portfolio (iv)** | **Capital Wind Farm (v)** | **Hiddestorf (vi)** | **US Wind Farms (vii)** | **Apfelbaum Portfolio (viii)** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Total cash consideration including associated costs | **(142)** | 58,166 | 239,155 | 117,713 | 21,601 | 363 | - | 3,147 | 440,003 |
| Value of investments in institutional equity partnerships | **-** | - | - | - | - | - | 642,363 | - | 642,363 |
| Stapled securities issued as consideration | **-** | - | - | - | 24,480 | - | - | - | 24,480 |
| **Total purchase consideration[1]** | **(142)** | **58,166** | **239,155** | **117,713** | **46,081** | **363** | **642,363** | **3,147** | **1,106,846** |
| **Net assets / (liabilities) acquired** | | | | | | | | | |
| Cash | **-** | 164 | 39,397 | - | 737 | 252 | 33,936 | - | 74,486 |
| Receivables | **-** | 3,767 | 83,576 | 34,573 | 3,528 | 1,279 | 17,782 | 437 | 144,942 |
| Plant and equipment | **-** | 46,858 | 1,490,989 | 236,621 | 42,348 | 6,031 | 1,469,507 | 20,705 | 3,313,059 |
| Other assets | **-** | 267 | 18,146 | 142 | - | 50 | 2,776 | - | 21,381 |
| Payables | **-** | (2,030) | (74,406) | (106) | - | (611) | (30,101) | (366) | (107,620) |
| Interest bearing liabilities | **-** | (34,257) | (1,257,172) | (270,933) | (50,683) | (7,228) | - | (21,748) | (1,642,021) |
| Institutional equity partnerships classified as liabilities | **-** | - | - | - | - | - | (991,524) | - | (991,524) |
| Other liabilities | **-** | - | (206,201) | - | - | - | - | - | (206,201) |
| Net assets/(liabilities) | **-** | **14,769** | **94,329** | **297** | **(4,070)** | **(227)** | **502,376** | **(972)** | **606,502** |
| Minority interests | **(142)** | (507) | (145,987) | - | - | - | - | - | (146,636) |
| Net assets acquired | **(142)** | 14,262 | (51,658) | 297 | (4,070) | (227) | 502,376 | (972) | 459,866 |
| Provisional goodwill | **-** | 43,904 | 290,813[2] | 117,416 | 50,151 | 590 | 139,987 | 4,119 | 646,980 |

[1] Refer to Note 32 for cash paid for investments in controlled entities
[2] Provisional goodwill for Enersis Portfolio includes acquired goodwill of $183,512,000

**28. Acquisition of businesses** *(cont.)*

**Provisional values**

The Group will undertake an exercise to allocate the purchase price paid for each of the acquisitions within a 12 month period from acquisition. This may result in a reallocation of goodwill to amortising or depreciating assets with a subsequent impact on the income statement applied retrospectively from the date of acquisition. The acquisition balances in the table above are provisional due to the requirement to engage experts to perform the purchase price allocation and the recent timing of the acquisitions.

**(i) Conjuro**

In August 2007, Olivento S.L., a subsidiary of BBWPL, purchased the remaining 30% of the share capital of Montes del Conjuro SA that operates the Conjuro wind farm on the same basis as the initial 70%. Olivento S.L. purchased the initial 70% during the financial year ended 30 June 2007.

The purchase price paid was $294,000, net of a price adjustment of $436,000.

**(ii) Valdeconejos**

In August 2007, Olivento S.L., a subsidiary of BBWPL, purchased 97% of the share capital of Sistemas Energeticos Abadia SA that operates the Valdeconejos wind farm.

The purchase price was approximately $58,166,000, including associated costs.

The provisional values of net assets acquired, $14,769,000, are provided in the table above.

The acquired business contributed revenues of $9,199,000 and net profit of $1,712,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of $9,768,000 and net profit of $1,970,000 would have been contributed to the Group.

**(iii) Enersis Portfolio**

In December 2007, BBWP Holdings (Bermuda) Limited, a subsidiary of BBWPL, purchased 50% of the share capital of Babcock & Brown Riva Holdings SARL that operates the Enersis wind farm portfolio.

The purchase price was approximately $239,155,000, including associated costs.

The provisional values of net assets acquired, $94,329,000, are provided in the table above.

The acquired businesses contributed revenues of $123,363,000 and net profit of $22,512,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of $192,940,000 and net profit of $25,741,000 would have been contributed to the Group.

**(iv) Almeria Portfolio**

In December 2007, Olivento S.L., a subsidiary of BBWPL, purchased 100% of the share capital of the following four entities that comprise the Almeria Portfolio of wind farms:

- Sistemas Energeticos La Cerradilla SA
- Sistemas Energeticos El Carrascal SA
- Sistemas Energeticos La Mata SA
- Sistemas Energeticos El Chaparral SA

The purchase price was approximately $117,713,000, including associated costs. Of this, approximately $16,371,000 is payable upon completion of construction of the projects.

The provisional values of net assets acquired, $297,000 are provided in the table above.

The acquired businesses contributed revenues of $nil and net loss of $512,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of $nil and net loss of $528,000 would have been contributed to the Group.

## 28. Acquisition of businesses *(cont.)*

### (v) Capital Wind Farm

In December 2007, BBWP CWF Pty Limited, a subsidiary of BBWPL, purchased 100% of CS CWF Trust, Babcock & Brown Renewable Power Investments Trust and RPV Pty Limited, which is constructing the Capital wind farm.

The purchase price was approximately $46,081,000, including associated costs. The purchase price was partly settled by issuing approximately 14,055,000 stapled securities.

The provisional values of net liabilities acquired, $4,070,000, are provided in the table above.

The acquired business contributed revenues of $nil and net loss of $220,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of $nil and net loss of $1,851,000 would have been contributed to the Group.

### (vi) Hiddestorf

In December 2007, BBWP Germany Holdings Pty Limited, a subsidiary of BBWPL, purchased 100% of the share capital of Hiddestorf GmbH & Co KG that operates the Hiddestorf wind farm.

The purchase price was approximately $363,000, including associated costs.

The provisional values of net liabilities acquired, $227,000, are provided in the table above.

The acquired business contributed revenues of $397,000 and net loss of $179,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of $713,000 and net loss of $379,000 would have been contributed to the Group.

### (vii) US Wind Farms

As of 1 January 2008, the Group has determined that it has the ability to control certain wind farm entities. For these situations, the Group has consolidated or proportionately consolidated from 1 January 2008 onwards. The information provided above relates to the following entities:

Babcock & Brown Wind Portfolio Holdings I LLC

Caprock Wind LLC

CCWE Holdings LLC

Crescent Ridge Holdings LLC

Kumeyaay Holdings LLC

Consideration comprises the value of the investments at 1 January 2008, $642,363,000. The provisional values of net assets acquired, $502,376,000 are provided in the table above.

The acquired businesses contributed revenues of $88,829,000 and net profit of $28,080,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of $133,994,000 and net loss of $24,015,000 would have been contributed to the Group. Furthermore, EBITDA of $96,598,000 would have been contributed to the Group had the acquisition taken place on 1 July 2007.

### (viii) Apfelbaum Portfolio

In June 2008, BBWP Gesa Holding GmbH & Co. KG, a subsidiary of BBWPL, purchased 100% of the share capital of the following three entities that comprise the Apfelbaum Portfolio of wind farms:

- Sonnenberg GmbH & Co KG
- Eschweiler GmbH
- Coswig GmbH

The purchase price was approximately $3,147,000, including associated costs.

The provisional values of net liabilities acquired, $972,000, are provided in the table above.

The acquired businesses contributed revenues of $nil and net profit of $nil to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of $2,422,000 and net profit of $427,000 would have been contributed to the Group.

## 28. Acquisition of businesses *(cont.)*

**2007**

The Group made the following acquisitions during the year ended 30 June 2007:

***(i) Monte Seixo/ Serra do Cando***

In June 2007, Olivento S.L., a subsidiary of BBWPL, purchased 100% of the share capital of SEC Holdco SA that operates the Monte Seixo and Serra do Cando wind farms.

The purchase price was approximately $92,094,000, including associated costs.

The fair values of net assets acquired, $65,540,000, are provided in the table below.

The acquired business contributed revenues of $2,204,000 and net profit of $1,340,000 to the Group for the period from acquisition to 30 June 2007. If the acquisition had occurred on 1 July 2006, revenue of $23,044,000 and net profit of $2,229,000 would have been contributed to the Group.

| | Carrying value $'000 | Fair value $'000 |
|---|---|---|
| **Purchase consideration** | | |
| Cash, including associated costs | | **92,094** |
| | | |
| **Net assets/ (liabilities) acquired** | | |
| Cash | 11,333 | 11,333 |
| Receivables | 3,450 | 3,450 |
| Plant and equipment | 57,090 | 64,430 |
| Licences | - | 88,514 |
| Other assets | 1,880 | 1,880 |
| Payables | (534) | (534) |
| Interest bearing liabilities | (78,763) | (78,763) |
| Other liabilities | (2,160) | (24,770) |
| | **(7,704)** | **65,540** |
| | | |
| Goodwill | | **26,554** |

## 28. Acquisition of businesses *(cont.)*

### *(ii) Conjuro*

In June 2007, Olivento S.L., a subsidiary of BBWPL, purchased 70% of the share capital of Montes del Conjuro SA that operates the Conjuro wind farm.

The purchase price was approximately $3,204,000, including associated costs.

The values of net assets acquired, $3,069,000, are provided in the table below.

The acquired business contributed revenues of $181,000 and net profit of $10,000 to the Group for the period from acquisition to 30 June 2007. If the acquisition had occurred on 1 July 2006, revenue of $1,191,000 and net loss of $327,000 would have been contributed to the Group.

| | Carrying value $'000 | Fair value $'000 |
|---|---|---|
| **Purchase consideration** | | |
| Cash, including associated costs | | **3,204** |
| | | |
| **Net assets/ (liabilities) acquired** | | |
| Cash | 5 | 5 |
| Receivables | 257 | 257 |
| Plant and equipment | 25,842 | 25,842 |
| Licences | - | 3,489 |
| Other assets | 4,379 | 4,379 |
| Payables | (856) | (856) |
| Interest bearing liabilities | (29,945) | (29,945) |
| Other liabilities | (133) | (102) |
| | **(451)** | **3,069** |
| Add: minority interest | | 135 |
| | | **3,204** |
| **G**oodwill | | - |

## 28. Acquisition of businesses *(cont.)*

### *(iii) Kaarst*

In January 2007, BBWP Germany Holdings Pty Limited, a subsidiary of BBWPL, purchased 100% of the share capital of the Kaarst GmbH & Co KG partnership that operates the Kaarst wind farm.

The purchase price was approximately $1,861,000, including associated costs and reduction in the prepaid investment costs.

The business was acquired at the point that operations commenced and contributed revenues of $1,280,000 and a net profit of $594,000 to the Group for the period from acquisition in January 2007 to 30 June 2007.

| | Carrying value<br>$'000 | Fair value<br>$'000 |
|---|---|---|
| **Purchase consideration** | | |
| Cash, including associated costs | | **1,861** |
| | | |
| **Net assets/ (liabilities) acquired** | | |
| Cash | - | - |
| Receivables | - | - |
| Plant and equipment | - | - |
| Licences | - | 1,861 |
| Other assets | - | - |
| Payables | - | - |
| Interest bearing liabilities | - | - |
| Other liabilities | - | - |
| | **-** | **1,861** |
| | | |
| Goodwill | | - |

## 29. Segment information

The Group operates in one business segment, the generation of electricity from wind energy.

The wind farms that generate this electricity are located in Australia, Spain, Germany, Portugal, France and the United States. BBW reports its primary segment information on a geographical basis.

**Segment revenues**

| | Revenue from the sale of energy and products | | Revenue from lease of plant and equipment | | Compensation revenue | | Total revenue | |
|---|---|---|---|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 (Restated) |
| Portugal | 119,814 | - | - | - | 3,549 | - | 123,363 | - |
| Spain | 72,374 | 41,723 | - | - | 2,383 | 2,904 | 74,757 | 44,627 |
| Australia | 24,483 | - | 45,252 | 44,656 | - | 273 | 69,735 | 44,929 |
| Germany | 14,323 | 14,160 | - | - | 19 | - | 14,342 | 14,160 |
| US | 34,105 | 21,683 | 92,712 | - | - | - | 126,817 | 21,683 |
| France | 5,467 | - | - | - | - | - | 5,467 | - |
| Total | 270,566 | 77,566 | 137,964 | 44,656 | 5,951 | 3,177 | 414,481 | 125,399 |

**Segment results**
**2008**

| Australia $'000 | US $'000 | Spain $'000 | Portugal $'000 | Germany $'000 | France $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| 3,691 | 5,016 | 7,775 | 31,645 | 698 | 41 | 48,866 |

| | |
|---|---|
| Revaluation of US wind farm investments | 24,246 |
| Unallocated | (17,368) |
| Profit before income tax expense | 55,744 |
| Income tax expense | (15,916) |
| Profit for the period | 39,828 |

## 29. Segment information *(cont'd)*

**2007 (Restated)**

| Australia $'000 | US $'000 | Spain $'000 | Portugal $'000 | Germany $'000 | France $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| 1,752 | (10,191) | 7,300 | - | 3,915 | - | 2,776 |

| | |
|---|---|
| Revaluation of US wind farm investments | 12,853 |
| Unallocated. | (8,536) |
| Profit before income tax expense | 7,093 |
| Income tax benefit | (769) |
| Profit for the period | 6,324 |

**Segment assets and liabilities**

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 (Restated) | 2008 $'000 | 2007 $'000 (Restated) |
| Australia | 946,541 | 672,054 | 819,148 | 648,493 |
| Spain | 1,097,741 | 549,048 | 956,689 | 421,618 |
| Portugal | 1,947,334 | - | 1,529,277 | - |
| Germany | 208,544 | 124,887 | 145,065 | 102,279 |
| France | 128,753 | 50,153 | 89,600 | 50,330 |
| USA | 2,166,844 | 1,027,781 | 1,875,689 | 719,526 |
| Total of all segments | 6,495,757 | 2,423,923 | 5,415,468 | 1,942,246 |
| Unallocated | 79,673 | 212,420 | 24,740 | 18,374 |
| Eliminations | - | (17,865) | - | (89,198) |
| Consolidated | 6,575,430 | 2,618,478 | 5,440,208 | 1,871,422 |

## 29. Segment information *(cont'd)*

**Other segment information**

| | Australia 2008 $'000 | Spain 2008 $'000 | Germany 2008 $'000 | France 2008 $'000 | US 2008 $'000 | Portugal 2008 $'000 | Unallocated 2008 $'000 | Consolidated 2008 $'000 |
|---|---|---|---|---|---|---|---|---|
| Carrying value of investments in financial assets (US wind farms) | - | - | - | - | - | - | - | - |
| Revaluation of US wind farm investments | - | - | - | - | 24,246 | - | - | 24,246 |
| Acquisition of segment assets: | | | | | | | | |
| Property, plant & equipment | 135,228 | 42,156 | 3,709 | 68,516 | 391,770 | 61,184 | - | 702,563 |
| Depreciation and amortisation of segment assets | (18,804) | (23,583) | (4,698) | (1,634) | (48,330) | (35,859) | (1,367) | (134,275) |

| | Australia 2007 $'000 (Restated) | Spain 2007 $'000 (Restated) | Germany 2007 $'000 (Restated) | France 2007 $'000 (Restated) | US 2007 $'000 (Restated) | Portugal 2007 $'000 (Restated) | Unallocated 2007 $'000 (Restated) | Consolidated 2007 $'000 (Restated) |
|---|---|---|---|---|---|---|---|---|
| Carrying value of investments in financial assets | - | - | - | - | 488,292 | - | - | 488,292 |
| Revaluation of US wind farm investments | - | - | - | - | 12,853 | - | - | 12,853 |
| Acquisition of segment assets: | | | | | | | | |
| Financial assets | - | - | - | - | 296,533 | - | - | 296,533 |
| Property, plant & equipment | 201,594 | 2,080 | 36,159 | 35,767 | - | - | - | 275,600 |
| Depreciation and amortisation of segment assets | (13,047) | (15,652) | (3,505) | - | (12,044) | - | (1,761) | (46,009) |

## 30. Related party disclosures

### (a) Equity interests in related parties

**Equity interests in subsidiaries**

Details of the percentage ownership held in subsidiaries are disclosed in Note 27 to the financial statements.

### (b) Key management personnel disclosures

Details of key management personnel remuneration are disclosed in Note 4 to the financial statements.

### (c) Other related party transactions

**Parent Entity transactions with members of the consolidated group**

During the financial year, various subsidiaries received management services from BBWPL. The total value of the services received was $18,763,000 (2007: $13,597,000).

BBWPL has entered into tax sharing and tax funding agreements. The terms of these agreements are provided in Note 3.

BBWPL has receivables from various subsidiaries of $1,012,434,000 (2007: $799,805,000). Refer Note 6.

BBWPL has borrowings from various subsidiaries of $1,177,253,000 (2007: $958,114,000) Refer Note 15.

BBWPL recorded interest income of $6,614,000 (2007: $1,284) on the interest bearing portion of its receivables from subsidiaries.

BBWPL recorded interest expense of $6,716,000 (2007: $8,728,000) on the interest bearing portion of its borrowings from subsidiaries.

**Transactions involving other related parties**

Receivables from related parties are disclosed in Note 6. Payables to related parties are disclosed in Note 14. Transactions were made on normal commercial terms and conditions and under normal market rates.

**30. Related party disclosures** *(cont'd)*

**Custodian, Responsible Entity and Manager fees and costs.**

Under the terms of the Custodian Agreement with Babcock & Brown Asset Holdings Pty Limited ("BBAH"), which is a subsidiary of Babcock & Brown Limited, 0.0125% of the gross asset value of BBWPT is payable. During the year ended 30 June 2008, fees paid or payable to the Custodian by the Group were $132,000 (2007: $94,000).

Under BBWPT's constitution BBWPS is entitled to a management fee of 2% per annum of the value of the gross assets of BBW. BBWPS previously exercised its right under the constitution to waive the fee referred to above such that it is paid remuneration of $500,000 per annum, increased by CPI annually. BBWPT incurred an amount of $542,000 (2007: $533,000) in the year ended 30 June 2008.

Management agreements were previously entered into with Babcock & Brown Infrastructure Pty Limited ("BBIM"), a subsidiary of Babcock & Brown Limited. During the year ended 30 June 2007, these agreements were novated from BBIM to Babcock & Brown Wind Partners Management Pty Limited ("BBWPM" or the "Manager"), which is also a subsidiary of Babcock & Brown Limited. Under the management agreements between, BBWPM, and each of BBWPL, BBWPS (as responsible entity of BBWPT) and BBWPB, a base fee of 1.4% per annum of the net investment value ("NIV") of BBW at the end of each quarter is payable. During the year ended 30 June 2007, a change to the base fee calculation was agreed as a consequence of the global refinancing. This change resulted in the corporate level debt component of the base fee formula being capped at 14% of the NIV.

Additionally, an incentive fee is payable half-yearly calculated as 20% of the amount (if any) of the excess percentage return of BBW stapled securities over the S&P/ ASX 200 Accumulation Index for each half year, multiplied by BBW's market capitalisation at the end of the half year. Nil incentive fee was paid in 2008 (2007: nil).

Base management fees paid or payable to BBIM or BBWPM were $20,487,000 (2007: $14,770,000) during the year. Of this amount, BBWPL incurred $14,788,000 (2007: $10,755,000), BBWPT incurred $2,468,000 (2007: $1,661,000) and BBWPB incurred $3,231,000 (2007: $2,354,000).

Under the management agreement between BBWPL and BBWPM, the Manager is entitled to an amount per annum in respect of expenses. During the year BBWPL incurred $8,725,000 (2007: $6,323,000) representing management expenses incurred by the Manager in the performance of its duties for the period to 30 June 2008.

Under a management agreement between Olivento S.L. and each of Babcock & Brown Limited and Babcock & Brown S.L., approximately $834,000 (2007: $554,000) was paid or payable during the year ended 30 June 2008 for the management of the Spanish Wind farms.

**Related party operational payments.**

The BBW Group paid $507,000 (2007: $382,000) to Renerco A.G. under Technical Management Agreements during the year ended 30 June 2008 for operational management of the German wind farms

The BBW Group paid $5,173,000 (2007: $nil) to Telener S.A. under Technical Management Agreements during the year ended 30 June 2008 in relation to the Portugese Windfarms. The BBW Group also paid $903,000 (2007: $nil) to Enermais for accounting services during the year ended 30 June 2008.

The BBW Group paid approximately $2,033,000 (2007: $nil) to a subsidiary of Babcock & Brown Limited under certain project and fiscal administration agreements during the year ended 30 June 2008 in relation to the BBW groups US wind farms.

## 30. Related party disclosures *(cont'd)*

### Transactions with related parties

BBWPL, BBWPS (as responsible entity of BBWPT) and BBWPB have entered into an Exclusive Financial Advisory Agreement with Babcock & Brown Australia Pty Limited ("BBA"), a subsidiary of Babcock & Brown Limited. During the year ended 30 June 2008 the group purchased 53 different wind farms in 5 different jurisdictions with a capacity of 1,141 MW and an enterprise value of $2,374,992,000. Fees of $54,202,000 (2007: $14,016,000), were paid or were payable by the Group to BBA for financial advisory services in relation to these acquisitions. These fees were for transactional services rendered and based on arms length terms and conditions, with the fees approved solely by BBW's independent Directors

During the year ended 30 June 2008, the Group paid BBA $ 9,044,000 (2007: $11,871,000) for debt advisory fees associated for securing $1,250,812,000 of additional global debt facilities. Refer to Note 15. These fees were for transactional services rendered and based on arms length terms and conditions, with the fees approved solely by BBW's independent Directors.

During the year ended 30 June 2008, the Group paid a subsidiary of Babcock & Brown Limited a total of $77,784,000 in framework incentive fees relating to the Group's investments in European Framework Assets. The amount of the framework incentive fees was determined in accordance with the formula set out in the Framework Agreements by reference to the projected returns for BBW from these investments (refer page 86 of BBW Product Disclosure Statement dated 26 September 2005).

During the year ended 30 June 2008, the Group paid a subsidiary of Babcock & Brown Limited a total of $11,520,000 in development premiums relating to the development of the Capital wind farm in Australia.

During the year ended 30 June 2008 BBW purchased a 50% share of the 524 MW Enersis portfolio in Portugal from a subsidiary of Babcock & Brown. Please refer to Note 28.

During the year ended 30 June 2008 BBW purchased 375 MW (2007: 582MW) of wind farms in the USA from a subsidiary of Babcock & Brown for a purchase price of $360,404,000 (2007: $478,121,000) as approved by security holders at the annual general meeting held on 9 November 2007.

### Loans to related parties

During the year ended 30 June 2008, as part of its treasury management program, a subsidiary of BBW advanced temporary revolving loans to subsidiaries of Babcock & Brown Limited to assist in funding their continued ownership of wind farm assets for BBW, including the Enersis and US07 portfolios, prior to their transfer to BBW. These loans did not exceed $250,000,000 and were subsequently repaid during the year ended 30 June 2008. Interest on these loans accrued at rates up to 8.4% and amounted to $6,115,000 during the periods in which the loans were outstanding. Babcock & Brown has subsequently announced a policy of no longer either making or receiving loans from managed funds

During the year ended 30 June 2007 as part of its treasury management program, BBWPT advanced a loan of $150,000,000 to Babcock & Brown Limited. Again, the loan was to assist in funding Babcock & Brown Limited's ownership of wind farm assets for BBW. The loan was subsequently repaid during the year ended 30 June 2007. The interest rate on the loan was 8.0% and interest of $657,000 was derived during the period in which the loan was outstanding.

## 30. Related party disclosures *(cont'd)*

**Share holdings of related parties**

At 30 June 2008, companies within the Babcock & Brown Limited group held 96,725,347 (2007: 81,162,000) stapled securities in BBW and during the year ended 30 June 2008 received $11,862,000 (2007: $9,212,000) as distributions on stapled securities held.

As a result of the placement that was completed during the year ended 30 June 2007 the Group issued 4.35 million stapled securities to a subsidiary of Babcock & Brown Limited for $1.80 per stapled security.

**Related party balances**

At the year end the BBW Group owed the following amounts to various subsidiaries of Babcock & Brown:

| | |
|---|---|
| B&B MH4 Co. Limited | $17,196,000 |
| Veryotherco Consultoria, Investimento E Servicos, SA | $16,319,000 |
| Babcock & Brown Australia Pty Limited | $8,268,000 |
| Babcock & Brown Wind Partners Management Pty Limited | $9,222,000 |
| Babcock & Brown UK Ltd | $986,000 |
| Babcock & Brown Wind Partners Services Limited | $136,000 |
| Babcock & Brown Asset Holdings Pty Limited | $34,000 |

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

At the year end the BBW Group was owed the following amounts from various subsidiaries of Babcock & Brown:

| | |
|---|---|
| Parque Eolico de Anganil, Lda | $10,401,000 |
| Telener S.A. | $131,000 |

**(d) Parent entities**

The parent entity in the Group is BBWPL.

The ultimate Australian parent entity is BBWPL.

The ultimate parent entity is BBWPL.

## 31. Subsequent events

On 21 August 2008, the Group agreed to sell its portfolio of operating Spanish wind energy assets with an installed capacity of 420.7MW to Formento de Construcciones y Contratas, S.A. The sale, which is expected to result in an estimated profit before transaction costs of approximately $266,000,000, is subject to local authority consents, which are expected to take approximately three months, with financial close occurring thereafter.

In September 2008, the Group announced that it would be undertaking an on-market buy-back of up to 10% of its securities over a period of 12 months.

## 32. Notes to the cash flow statement

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 (Restated) | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| **(a) Reconciliation of cash and cash equivalents** | | | | |
| For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows: | | | | |
| Cash and cash equivalents | 208,505 | 442,969 | 47,294 | 23,265 |
| | 208,505 | 442,969 | 47,294 | 23,265 |
| **(b) Businesses acquired** | | | | |
| During the financial year, 8 businesses (2007: 4) were acquired, Details of the acquisitions are as follows: | | | | |
| **Consideration** | | | | |
| Cash and cash equivalents paid | 421,582 | 85,883 | 486 | 957 |
| Value of investments in institutional equity partnerships | 642,363 | - | - | - |
| Consideration settled through the issue of stapled securities | 24,480 | - | - | - |
| Cash and cash equivalents deferred until a future period | 18,421 | 11,276 | - | - |
| | 1,106,846 | 97,159 | 486 | 957 |
| **Fair value of net assets acquired** | | | | |
| Cash | 74,486 | 11,338 | - | - |
| Receivables and other current assets | 144,942 | 3,707 | - | - |
| Property, plant and equipment | 3,313,059 | 90,272 | - | - |
| Other assets | 21,381 | 100,123 | - | - |
| Payables | (107,620) | (1,390) | - | - |
| Interest bearing liabilities | (1,642,021) | (108,708) | - | - |
| Institutional equity partnerships classified as liabilities | (991,524) | - | - | - |
| Other liabilities | (206,201) | (24,872) | - | - |
| Net assets/ (liabilities) acquired | 606,502 | 70,470 | - | - |
| Minority interest | (146,636) | 135 | - | - |
| | 459,866 | 70,605 | - | - |
| Implied goodwill | 646,980 | 26,554 | 486 | 957 |
| **Net cash outflow on acquisition** | | | | |
| Total consideration | 1,106,846 | 97,159 | 486 | 957 |
| Less: value of investments in institutional equity partnerships | (642,363) | - | - | - |
| Less: cash and cash equivalent balances acquired | (74,486) | (11,338) | - | - |
| Less: consideration still to be paid | (18,421) | (7,280) | - | - |
| Less: consideration settled through issue of stapled securities | (24,480) | - | - | - |
| Less: cash balances received on recognition of joint controlled entities | (8,746) | - | - | - |
| Add: prior year and future acquisition costs paid | 14,617 | (3,996) | - | - |
| Cash paid for investments in controlled entities | 352,967 | 74,545 | 486 | 957 |

## 32. Notes to the cash flow statement *(cont'd)*

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000 (Restated)** | **2008 $'000** | **2007 $'000** |
| **(c) Non-cash financing and investing activities** | | | | |
| Distribution reinvestment plan | 29,062 | 15,083 | - | - |
| Lake Bonney Wind Power Pty Limited (Note 19) | - | 1,112 | - | - |
| Acquisition of Capital Wind Farm (Note 19) | 24,480 | - | - | -- |
| Institutional equity partnerships in the US over which control/ joint control gained[1] | 840,701 | - | - | - |
| | 894,243 | 16,195 | - | - |

[1]Refer to note 17 for more information relating to institutional equity partnerships.

The acquisition of certain Class B membership interests in the GSG and Allegheny Ridge Phase 1 wind farms took place on 29 June 2007, however the related payment did not settle until 2 July 2007.

**(d) Restricted cash balances**

As at balance date $13,435,000 (2007: $14,164,000) of cash held is restricted and includes amounts held under project cost reserves.

## 33. Financial risk management

The Group is exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and electricity price risk), credit risk and liquidity risk.
The principal financial instruments that give rise to this risk comprise cash, receivables, derivative interest rate swaps, derivative forward foreign exchange deals, payables and interest bearing debt.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group's treasury policy provides a framework for managing the financial risks of the Group. The key philosophy of the Group Treasury policy is risk mitigation. The Group Treasury policy specifically does not authorise any form of speculation.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. In line with the Group Treasury policy derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and aging analysis for credit risk.

There have been no changes to the type or class of financial risks the Group is exposed to since the prior year.

### (a) Market risks

### (i) Interest rate risks

The Group's income and operating cash flows are exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed by fixing a portion of the floating rate borrowings, by use of interest rate swap contracts. During 2008 and 2007, the Group's borrowings at variable rates were denominated in Australian Dollars, US Dollars and Euros.

A high percentage of the face value of debt in each of the relevant currencies is hedged using interest rate swaps. The table below shows a breakdown of the Group's interest rate debt and swap positions.

In undertaking this strategy the Group is willing to forgo a percentage of the potential economic benefit that would arise in a falling interest rate environment, to protect itself from downside risks of increasing interest rates and secure a greater level of predictability for cash flows.

## 33. Financial risk management *(cont'd)*

### Interest rate swap contracts – designated as cash flow hedges

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

| | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| **Outstanding pay fixed Interest rate swaps** | **2008 %** | **2007 %** | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Fixed swap - Australia Dollar | 6.70 | 6.54 | 557,531 | 424,575 | 24,757 | 9,372 |
| Fixed swap - Euro | 4.32 | 4.14 | 2,046,392 | 447,038 | 90,748 | 16,050 |
| Fixed swap - US Dollar | 5.28 | 5.26 | 456,858 | 347,222 | (24,105) | 8,783 |
| | | | **3,060,781** | **1,218,835** | **91,400** | **34,205** |

### Bank debt as at balance date

The table below details the total amount of debt the Group holds as at 30 June 2008.
The debt is denominated in AUD, USD and EUR.
The debt is repriced every 6 months.
AUD debt is priced using the 6 month BBSW rate plus the defined facility margin.
EUR debt is priced using the 6 month Euribor rate plus the defined facility margin.
USD debt is priced using the 6 month Libor rate plus the defined facility margin.
The table below shows the total debt and breakdown of fixed and floating debt

The average 6 month fixed and floating rate debt detailed in the table below is not inclusive of the facility margin. The current average facility margin is 87 points.

| | Floating Debt | | Debt principal amount | | | |
|---|---|---|---|---|---|---|
| **Floating rate debt** | **2008 %** | **2007 %** | **2008 $'000** | **2007 $'000** | | |
| AUD debt | 8.01 | 7.03 | 11,292 | 53,422 | | |
| EUR debt | 5.12 | 4.92 | 295,342 | 136,145 | | |
| USD debt | 3.13 | 5.21 | 132,213 | 96,459 | | |
| | | | **438,847** | **286,026** | | |
| | **Fixed Debt** | | **Debt principal amount** | | **% of Debt Hedged** | |
| **Fixed rate debt** | **2008 %** | **2007 %** | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| AUD debt | 6.70 | 6.54 | 557,531 | 424,575 | 98% | 89% |
| EUR debt | 4.32 | 4.14 | 2,046,392 | 446,358 | 87% | 76% |
| USD debt | 5.28 | 5.26 | 456,858 | 158,917 | 78% | 62% |
| | | | **3,060,781** | **1,029,850** | | |
| **TOTAL DEBT** | **4.86** | **5.33** | **3,499,628** | **1,315,876** | **88%** | **78%** |

## 33. Financial risk management *(cont'd)*

The table below shows the maturity profile of the interest rate swaps as of 30 June 2008 and 30 June 2007.

| 2008 | Fair value<br>AUD$'000 | Undiscounted fair value<br>AUD$'000 | Up to 12 months<br>AUD$'000 | 1 to 5 years<br>AUD$'000 | Over 5 years<br>AUD$'000 |
|---|---|---|---|---|---|
| AUD swaps | 24,757 | 31,036 | 7,458 | 18,281 | 5,297 |
| EUR swaps | 90,748 | 131,366 | 20,506 | 45,444 | 65,416 |
| USD swaps | (24,105) | (29,386) | (9,414) | (16,116) | (3,856) |
| | **91,400** | **133,016** | | | |

| 2007 | Fair value<br>AUD$'000 | Undiscounted fair value<br>AUD$'000 | Up to 12 months<br>AUD$'000 | 1 to 5 years<br>AUD$'000 | Over 5 years<br>AUD$'000 |
|---|---|---|---|---|---|
| AUD swaps | 9,372 | 12,112 | 696 | 6,887 | 4,529 |
| EUR swaps | 16,050 | 22,623 | 1,038 | 7,390 | 14,195 |
| USD swaps | 8,783 | 13,397 | 186 | 2,118 | 11,093 |
| | **34,205** | **48,132** | | | |

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately. In the year ended 30 June 2008, a net figure of AUD 2,802,647 was transferred to profit (2007: AUD 23,131,352) and included in finance cost.

### Sensitivity

The sensitivity to interest rate movement of net profit before tax and equity have been determined based on the exposure to interest rates at the reporting date. A sensitivity of 100 basis points has been selected across the 3 currencies to which the Group is exposed to floating rate debt, AUD, EUR and USD. The 100 basis points sensitivity is deemed to be flat across the yield curve and is a reasonable estimate of movement based on current long term and short term interest rates.

## 33. Financial risk management *(cont'd)*

| Consolidated 2008 AUD $'000 | | | AUD +100 bps | AUD -100 bps | EUR +100 bps | EUR -100 bps | USD +100 bps | USD -100 bps |
|---|---|---|---|---|---|---|---|---|
| **Impact on income statement** | | | | | | | | |
| Cash | AUD | 42,293 | 423 | (423) | - | - | - | - |
| | EUR | 119,917 | - | - | 1,199 | (1,199) | - | - |
| | USD | 46,295 | - | - | - | - | 463 | (463) |
| | | **208,505** | | | | | | |
| Borrowings | AUD | 568,823 | (113) | 113 | - | - | - | - |
| | EUR | 2,341,734 | - | - | (2,953) | 2,953 | | |
| | USD | 589,071 | - | - | - | - | (1,302) | 1,302 |
| | | **3,499,628** | | | | | | |
| Derivatives - interest rate swaps | AUD | 557,531 | 4,745 | (4,745) | - | - | - | - |
| | EUR | 2,046,392 | - | - | 7,486 | (7,486) | - | - |
| | USD | 456,858 | - | - | - | - | - | - |
| **Total income statement** | | **3,060,781** | **5,055** | **(5,055)** | **5,732** | **(5,732)** | **(839)** | **839** |
| **Impact on hedge reserve** | | | | | | | | |
| Derivatives - interest rate swaps | AUD | 557,531 | 33,382 | (33,382) | - | - | - | - |
| | EUR | 2,046,392 | - | - | 135,825 | (135,825) | - | - |
| | USD | 456,858 | - | - | - | - | 34,323 | (34,323) |
| **Total hedge reserve** | | **3,060,781** | **33,382** | **(33,382)** | **135,825** | **(135,825)** | **34,323** | **(34,323)** |
| **Total impact on equity** | | | **38,437** | **(38,437)** | **141,557** | **(141,557)** | **33,484** | **(33,484)** |

## 33. Financial risk management *(cont'd)*

| **2007**<br>**AUD $'000** | | | **AUD**<br>**+100 bps** | **AUD**<br>**-100 bps** | **EUR**<br>**+100 bps** | **EUR**<br>**-100 bps** | **USD**<br>**+100 bps** | **USD**<br>**-100 bps** |
|---|---|---|---|---|---|---|---|---|
| **Impact on income statement** | | | | | | | | |
| Cash | AUD | 182,348 | 1,823 | (1,823) | - | - | - | - |
| | EUR | 23,559 | - | - | 236 | (236) | - | - |
| | USD | 237,062 | - | - | - | - | 2,371 | (2,371) |
| | | **442,969** | | | | | | |
| Financial | USD | 488,292 | - | - | - | - | (37,684) | 37,684 |
| | | **488,292** | | | | | | |
| Borrowings | AUD | 497,997 | (534) | 534 | - | - | - | - |
| | EUR | 562,503 | - | - | (1,361) | 1,361 | - | - |
| | USD | 255,376 | - | - | - | - | (965) | 965 |
| | | **1,315,876** | | | | | | |
| Derivatives - interest rate swaps | AUD | 444,575 | 5,316 | (5,316) | - | - | - | - |
| | EUR | 426,358 | - | - | - | - | - | - |
| | USD | 158,917 | - | - | - | - | 8,116 | (8,116) |
| **Total income statement** | | **1,029,850** | **6,605** | **(6,605)** | **(1,125)** | **1,125** | **(28,162)** | **28,162** |
| **Impact on hedge reserve** | | | | | | | | |
| Derivatives - interest rate swaps | AUD | 444,575 | 22,994 | (22,994) | | | | |
| | EUR | 426,358 | | | 33,798 | (33,798) | | |
| | USD | 158,917 | | | | | 18,424 | (18,424) |
| **Total hedge reserve** | | **1,029,850** | **22,994** | **(22,994)** | **33,798** | **(33,798)** | **18,424** | **(18,424)** |
| **Total impact on equity** | | | **29,599** | **(29,599)** | **32,673** | **(32,673)** | **(9,738)** | **9,738** |

### 33. Financial risk management *(cont'd)*

The impact on net profit is largely due to the Group's exposure to interest rates on its non-hedged variable rate borrowings. The impact on hedge reserve is due to the effective portion of the change in fair value of derivatives that are designated as cash flow hedges.

**Parent Entity**

| **2008**<br>**AUD $'000** | | | **AUD**<br>**+100 bps** | **AUD**<br>**-100 bps** | **EUR**<br>**+100 bps** | **EUR**<br>**-100 bps** | **USD**<br>**+100 bps** | **USD**<br>**-100 bps** |
|---|---|---|---|---|---|---|---|---|
| **Impact on income statement** | | | | | | | | |
| Cash | AUD | 16,087 | 161 | (161) | | | | |
| | EUR | 15,324 | | | 153 | (153) | | |
| | USD | 15,883 | | | | | 159 | (159) |

| **2007**<br>**AUD $'000** | | | **AUD**<br>**+100 bps** | **AUD**<br>**-100 bps** | **EUR**<br>**+100 bps** | **EUR**<br>**-100 bps** | **USD**<br>**+100 bps** | **USD**<br>**-100 bps** |
|---|---|---|---|---|---|---|---|---|
| **Impact on income statement** | | | | | | | | |
| Cash | AUD | 23,265 | 233 | (233) | - | - | - | - |
| Derivatives - interest rate swaps | USD | 2,716 | - | - | - | - | 8,116 | (8,116) |

#### (ii) Foreign currency risks

The Group has wind farm operations in Australia, USA and Europe.

The Group generates AUD, USD & EUR revenue from these operations. The Group and the parent entity are exposed to a decline in value of EUR and USD versus the AUD, decreasing the value of AUD equivalent revenue from its European and US wind farm operations.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group strives to naturally hedge in all possible situations so the majority of the Group's expenses are denominated in the same currency as the associated revenues. For example, under the Group's Global Facility the matching principle is used so debt is drawn down in the currency of the underlying operation. This leaves only the net income of the operation that is exposed to currency fluctuations.

Consistent with Group's treasury guidelines based on capital preservation, the Group utilises forward foreign exchange contracts to hedge the returns of net investment from its European and US operations.

## 33. Financial risk management *(cont'd)*

### Forward foreign exchange contracts

The Group entered into contracts to hedge its exposures relating to its net investments in overseas entities to reduce the potential for exchange rate movements to impact on investment returns for periods of up to 3 years

The following table details the forward foreign currency contracts outstanding as at the reporting date:

| Outstanding contracts | Average exchange rate 2008 | Average exchange rate 2007 | Foreign currency 2008 FC'000 | Foreign currency 2007 FC'000 | Contract value 2008 $'000 | Contract value 2007 $'000 | Fair value 2008 $'000 | Fair value 2007 $'000 |
|---|---|---|---|---|---|---|---|---|
| Sell EUR buy AUD | 0.5765 | 0.5787 | 105,600 | 15,700 | 183,172 | 27,130 | 3,093 | 1,711 |
| Sell USD buy AUD | 0.8377 | 0.7737 | 80,750 | 38,475 | 96,396 | 49,726 | 6,580 | 3,789 |
| | | | | | **279,568** | **76,856** | **9,673** | **5,500** |

As at the reporting date the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is $9,673,590 (2007: $5,500,000 ). All amounts relating to the forward foreign exchange contracts were recognised in the income statement.

The cash flows are expected to occur at various dates between one month and 3 years. At balance date, the details of outstanding contracts are:

| Buy AUD | Sold Euro 2008 | Sold Euro 2007 | Average exchange rate 2008 | Average exchange rate 2007 |
|---|---|---|---|---|
| 0-1 year | 89,677 | 17,685 | 0.5843 | 0.5822 |
| 1-2 years | 61,804 | 9,445 | 0.5695 | 0.5721 |
| 2-3 years | 31,691 | | 0.5680 | |
| | **183,172** | **27,130** | | |

| Buy AUD | Sold USD 2008 | Sold USD 2007 | Average exchange rate 2008 | Average exchange rate 2007 |
|---|---|---|---|---|
| 0-1 year | 43,870 | 29,406 | 0.8263 | 0.7796 |
| 1-2 years | 36,455 | 15,377 | 0.8366 | 0.7674 |
| 2-3 years | 16,071 | 4,943 | 0.8711 | 0.7585 |
| | **96,396** | **49,726** | | |

## 33. Financial risk management *(cont'd)*

The Group's balance sheet exposure to foreign currency risk at the reporting date was as follows.

The below table represents the EUR and USD assets and liabilities the group holds in AUD functional currency entities

| **Consolidated** | **2008** | | **2007** | |
|---|---|---|---|---|
| **AUD $'000** | **EUR** | **USD** | **EUR** | **USD** |
| Cash | 61,346 | 15,915 | 92,134 | 8,519 |
| Trade receivable | 3,729 | - | 434 | 4,749 |
| Prepaid Investment | 1,391 | 306 | - | - |
| Net investment in foreign operations | 668,967 | 255,473 | 175,084 | 441,528 |
| Trade payables | (4,834) | (8) | (35) | (35) |
| Bank loans | (265,412) | (60,504) | (123,670) | (68,587) |
| Forward exchange contracts – sell foreign currency (cash flow hedges) | (173,072) | (83,844) | (24,850) | (32,684) |
| **Total Exposure AUD $'000** | **292,115** | **127,338** | **119,097** | **353,490** |

| **Parent Entity** | **2008** | | **2007** | |
|---|---|---|---|---|
| **AUD $'000** | **EUR** | **USD** | **EUR** | **USD** |
| Cash | 15,324 | 15,883 | 7,740 | 8,519 |
| Trade receivable | 2,407 | - | 1 | 2,717 |
| Prepaid Investment | 592 | (13) | - | - |
| Net investment in foreign operations | 378,656 | (82,969) | 54,066 | 78,567 |
| Trade payables | (3,279) | (8) | (1) | - |
| Bank loans | - | - | - | - |
| Forward exchange contracts – sell foreign currency (cash flow hedges) | (173,072) | (83,844) | (24,850) | (32,684) |
| **Total Exposure AUD $'000** | **220,628** | **(150,951)** | **36,956** | **57,119** |

### Sensitivity

The following table details the Groups' sensitivity to a 10% change in the AUD against the USD and the EUR, with all other variables held constant, as at the reporting date, for its unhedged foreign exchange exposure.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed on an historic basis and market expectations for future movement.

| **Consolidated**<br>**AUD $'000** | **AUD/EUR + 10%** | **AUD/EUR - 10%** | **AUD/USD + 10%** | **AUD/USD - 10%** |
|---|---|---|---|---|
| **2008** | | | | |
| Income statement | 20,378 | (20,378) | 4,429 | (4,429) |
| FCTR (Foreign currency translation reserve) | (49,589) | 49,589 | (17,163) | 17,163 |
| **2007** | | | | |
| Income statement | 3,113 | (3,113) | 5,535 | (5,535) |
| FCTR (Foreign currency translation reserve) | (15,023) | 15,023 | (40,784) | 40,784 |

## 33. Financial risk management *(cont'd)*

| Parent Entity<br>AUD $'000 | AUD/EUR<br>+ 10% | AUD/EUR<br>- 10% | AUD/USD<br>+ 10% | AUD/USD<br>- 10% |
|---|---|---|---|---|
| **2008** | | | | |
| Income statement | (1,504) | 1,504 | (1,586) | 1,586 |
| FCTR (Foreign currency translation reserve) | (20,558) | 20,558 | 16,681 | (16,681) |
| **2007** | | | | |
| Income statement | (773) | 773 | (1,123) | 1,123 |
| FCTR (Foreign currency translation reserve) | (2,921) | 2,921 | (4,588) | 4,588 |

### (iii) Electricity price risks

The Group has wind farm operations in Australia, USA and Europe and sells electricity to utility companies in each of the regions it operates.

The financial risk to the Group is that a decrease in the electricity price reduces revenue earned.

To mitigate the financial risks of electricity prices falling, the Group has entered into producer pricing agreements and fixed tariff agreements to fix the sale price of the electricity it produces. As of 30 June 2008 the Group is exposed to market electricity prices for 247MW of its Spain wind production, 159MW of Australian Lake Bonney 2 wind production, and 173MW of US wind production.

In undertaking this strategy of fixing a percentage of its wind electricity sales, the Group is willing to forgo a percentage of the potential economic benefit that would arise in an increasing electricity price environment, to protect itself from downside risks of decreasing electricity prices and secure a greater level of predictability of cash flows.

**Sensitivity**

The following table details the Groups' sensitivity to a 10% change in the electricity price, with all other variables held constant as at the reporting date, for its unhedged exposure to the electricity market.

A sensitivity of 10% has been selected as this is considered, reasonable given the current level of electricity prices and the volatility observed on an historic basis and market expectations for future movement.

| Consolidated<br>AUD $'000 | Electricity Price<br>+ 10% | Electricity Price<br>- 10% |
|---|---|---|
| **2008** | | |
| Income statement | 8,043 | (8,043) |
| **2007** | | |
| Income statement | 1,919 | (1,919) |

Changes in electricity prices would have no effect on net profit of the parent entity.

## 33. Financial risk management *(cont'd)*

### (b) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customer. The Group exposure is continuously monitored and the aggregate value of transactions are spread amongst creditworthy counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. BBW as a wind generator sells electricity to large utility companies that operate in the regions it has wind farms. The utility companies are situated in Australia, France, Germany, Portugal, Spain, and in many different states of USA. No one utility company represents a significant portion of the total accounts receivable balance. BBW does not asses the credit rating of the utility companies it sells electricity to, due to the limited risk each utility company poses to the overall accounts receivable balance.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with credit-ratings assigned by international credit-rating agencies as above investment grade.

The carrying amount of financial assets recorded in the financial statements, represents the Group's maximum exposure to credit risk.

| Consolidated | Within credit terms $'000 | Past due but not impaired $'000 | Impaired $'000 | Description |
|---|---|---|---|---|
| **2008** | | | | |
| Bank deposits | 208,505 | | | Banks are investment grade or above |
| Derivative - Interest rate swap | 91,400 | | | Banks are investment grade or above |
| Derivative – Forward FX | 9,674 | | | Banks are investment grade or above |
| Trade receivables | 68,077 | 2,337 | | Spread geographically with large utility companies |
| Government grant receivable | 34,313 | | | Due from Portugal Govt. |
| Amounts due from related parties | 10,532 | | | Due from B&B |
| GST, VAT and other tax receivables | 78,891 | | | National and regional governments |
| **2007** | | | | |
| Bank deposits | 442,969 | | | Banks are investment grade or above |
| Derivative – Interest rate swap | 34,469 | | | Banks are investment grade or above |
| Derivative – Forward FX | 76,857 | | | Banks are investment grade or above |
| Trade receivables | 20,045 | | | Spread geographically with large utility companies |
| Interest receivable | 170 | | | Banks are investment grade or above |
| GST, VAT and other tax receivables | 22,739 | | | National and regional governments |
| Other receivables | 1,040 | | | |

## 33. Financial risk management *(cont'd)*

| Parent Entity | Within credit terms $'000 | Past due but not impaired $'000 | Impaired $'000 | Description |
|---|---|---|---|---|
| **2008** | | | | |
| Bank deposits | 47,294 | | | Banks are investment grade or above |
| Derivative – Forward FX | 9,674 | | | Banks are investment grade or above |
| Interest receivable | 1,221 | | | Due from members of the consolidated group |
| Amounts due from related parties | 37,351 | | | Due from members of the consolidated group |
| **2007** | | | | |
| Bank deposits | 23,265 | | | Banks are investment grade or above |
| Derivative financial instruments – forward foreign exchange contracts | 76,857 | | | Banks are investment grade or above |
| Interest receivable | 676 | | | Due from members of the consolidated group |
| Amounts due from related parties | 47,456 | | | Due from members of the consolidated group |
| GST, VAT and other tax receivables | 946 | | | National and regional governments |

### (c) Liquidity risks

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below sets out the Group and parent entity's financial liabilities at balance date and places them into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flow. For interest rate swaps, the cash flows have been estimated using forward interest rates applicable at the reporting date.

## 33. Financial risk management *(cont'd)*

**Consolidated**

| **2008** | **Up to 12 months $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total contractual cash flows $'000** |
|---|---|---|---|---|
| Gross loan commitments | 169,332 | 925,891 | 2,404,405 | 3,499,628 |
| Gross finance lease | 5,550 | 22,197 | 32,028 | 59,775 |
| Interest rate swap payable | 9,541 | 16,790 | 7,606 | 33,937 |
| Interest rate swap (receivable) | (27,963) | (63,821) | (74,027) | (165,811) |
| Forward foreign exchange payable | 123,519 | 133,396 | - | 256,915 |
| Forward foreign exchange (receivable) | (133,547) | (146,021) | - | (279,568) |
| Current payables | 296,392 | - | - | 296,392 |
| Related party payable | - | 17,196 | - | 17,196 |

| **2007** | **Up to 12 months $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total contractual cash flows $'000** |
|---|---|---|---|---|
| Gross loan commitments | 36,903 | 338,609 | 940,363 | 1,315,875 |
| Gross finance lease | 5,079 | 20,314 | 46,789 | 72,182 |
| Interest rate swap payable | 275 | - | - | 275 |
| Interest rate swap receivable | (2,196) | (16,394) | (29,816) | (48,406) |
| Forward foreign exchange payable | 43,285 | 26,857 | - | 70,142 |
| Forward foreign exchange receivable | (47,091) | (29,766) | - | (76,857) |
| Current payables | 261,345 | - | - | 261,345 |

**Parent Entity**

| **2008** | **Up to 12 months $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total contractual cash flows $'000** |
|---|---|---|---|---|
| Forward foreign exchange payable | 123,519 | 133,396 | - | 256,915 |
| Forward foreign exchange (receivable) | (133,547) | (146,021) | - | (279,568) |
| Intercompany loans payable | 1,178,446 | - | - | 1,178,446 |
| Intercompany loans (receivable) | (1,035,849) | - | - | (1,035,849) |
| Current payables | 19,630 | - | - | 19,630 |

| **2007** | **Up to 12 months $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total contractual cash flows $'000** |
|---|---|---|---|---|
| Forward foreign exchange payable | 43,285 | 26,857 | - | 70,142 |
| Forward foreign exchange (receivable) | (47,091) | (29,766) | - | (76,857) |
| Intercompany loans payable | 963,257 | - | - | 963,257 |
| Intercompany loans (receivable) | (816,925) | - | - | (816,925) |
| Current payables | 12,726 | - | - | 12,726 |

## 33. Financial risk management *(cont'd)*

### Capital Risk Management

The Group and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to securityholders, return capital to securityholders, issue new securities or sell assets to reduce debt.

The capital structure of the Group consists of total corporate facilities as listed in Note 15, and equity, comprising issued capital, reserves and retained earnings as listed in Notes 19, 20 and 21.

The Board of Directors review the capital structure, and as part of this review, consider the cost of capital and the risks and rewards associated with each class of capital.

The Group has to maintain certain ratios in regard to compliance with its banking facility.

These two ratio's are:

Leverage Ratio – Debt / EBITDA

Cash Flow Cover Ratio – EBITDA / Scheduled interest and principal repayments.

During the year the ratios have been fully complied with.

### Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 34. Interests in joint ventures

Interests in the following institutional equity partnerships in the US are accounted for in the consolidated financial statements as joint venture partnerships and are proportionately consolidated based on BBW's Class B interest.

| Institutional equity partnership | Related wind farms | Class B Interest held by BBW |
|---|---|---|
| Sweetwater Wind 1 LLC | Sweetwater 1 | 50% |
| Sweetwater Wind 2 LLC | Sweetwater 2 | 50% |
| Sweetwater Wind 3 LLC | Sweetwater 3 | 50% |
| Blue Canyon Windpower LLC | Blue Canyon | 50% |
| Eurus Combine Hills 1 LLC | Combine Hills | 50% |
| Sweetwater Wind 4-5 Holdings LLC[1] | Sweetwater 4, Sweetwater 5 | 53% |
| JB Wind Holdings LLC[1] | Jersey Atlantic, Bear Creek | 59% |

[1]Joint control was gained over these institutional equity partnerships during the year ended 30 June 2008

Further information relating to these institutional equity partnerships is set out below:

### Share of institutional equity partnerships' assets and liabilities

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Current assets | 15,533 | 5,459 |
| Non-current assets | 562,110 | 252,326 |
| Total assets | 577,643 | 257,785 |
| Current liabilities | 10,324 | 4,853 |
| Non-current liabilities | 404,508 | 205,529 |
| Total liabilities | 414,832 | 210,382 |
| **Net assets** | **162,811** | **47,403** |

### Share of institutional equity partnerships' revenues, expenses and results

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Revenues | 60,765 | 38,419 |
| Expenses | (60,040) | (39,108) |
| **Profit/ (loss) before tax** | **725** | **(689)** |

### Share of institutional equity partnerships' commitments and contingent liabilities

The following information is included within the information contained in notes 24 and 25.

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Commitments | 37,306 | 42,290 |
| Contingent liabilities | 184 | 208 |

# Directors' declaration

In the opinion of the directors of Babcock & Brown Wind Partners Limited ("BBWPL"):

(a) the financial statements and notes set out on pages 25 to 108 are in accordance with the *Corporations Act 2001,* including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors of BBWPL:

| | |
|---|---|
| **Peter Hofbauer** | **Warren Murphy** |
| **Director** | **Director** |

Sydney, 24 September 2008

# BABCOCK & BROWN WIND PARTNERS TRUST

**ARSN 116 244 118**

## ANNUAL FINANCIAL REPORT
## FOR THE YEAR ENDED 30 JUNE 2008

TOGETHER WITH THE DIRECTORS' REPORT

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# BBW corporate structure

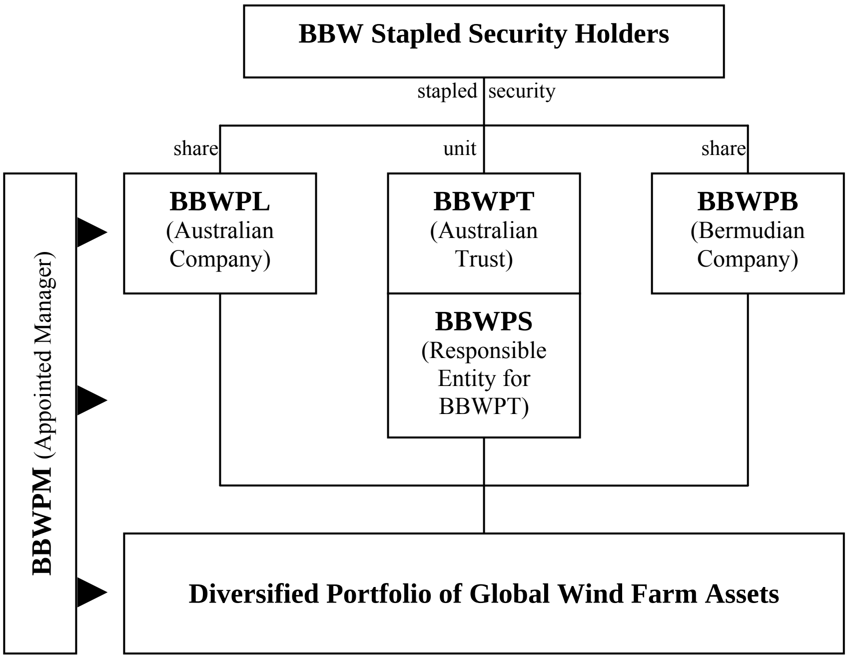
The Babcock & Brown Wind Partners Group ("**BBW**") consists of the following entities:

- Babcock & Brown Wind Partners Limited ("**BBWPL**"), a public company incorporated in Australia;
- Babcock & Brown Wind Partners Trust ("**BBWPT**"), a managed investment scheme registered in Australia;
- Babcock & Brown Wind Partners (Bermuda) Limited ("**BBWPB**"), a company incorporated in Bermuda; and
- the subsidiary entities of BBWPL and BBWPT.

One share in each of BBWPL and BBWPB and one unit in BBWPT have been stapled together to form a single BBW stapled security, tradable on the Australian Securities Exchange.

Babcock & Brown Wind Partners Management Pty Ltd ("**BBWPM**") is the Manager of BBW. Babcock & Brown Wind Partners Services Limited ("**BBWPS**") is the Responsible Entity of BBWPT. BBWPM and BBWPS are wholly owned subsidiary entities of Babcock & Brown Limited ("**Babcock & Brown**").

The following diagram provides an overview of BBW's structure.



# Directors' report

## *Report of the Directors of the Responsible Entity*

In respect of the year ended 30 June 2008, the Directors of BBWPS, the Responsible Entity of BBWPT, submit the following report on the financial results of BBWPT and its controlled entities.

## *Directors*

The names and particulars of the Directors of BBWPS during or since the end of the financial year are set out below.

| *Name* | *Particulars* |
|---|---|
| **Peter Hofbauer**<br>**(Babcock & Brown executive)**<br><br>**Chairman**<br>*Appointed on 14 April 2005* | Peter joined Babcock & Brown in 1989 and has worked in both the Sydney and London offices. He is currently based in London.<br>Peter was the Global Head of Babcock & Brown's Infrastructure group throughout the financial year, and in August 2008 was appointed as the Chief Investment Officer of the Babcock & Brown Group. Peter is also a director of Babcock & Brown Infrastructure Limited.<br>Prior to joining Babcock & Brown, Peter worked with Price Waterhouse and Westpac Project and Advisory Services Limited. Peter worked in the Sydney office of Babcock & Brown until early 1996 covering a range of business areas including large scale asset, property and tax based structured financing transactions. From 1996 until 2000 Peter worked in the London office of Babcock & Brown where he was responsible for establishing Babcock & Brown's European property and infrastructure principal finance group. This involved, amongst other things, the establishment and ongoing management of a wholesale investment fund for Babcock & Brown and its clients.<br>Peter has a Bachelor of Business from the Swinburne University. He is a member of the Institute of Chartered Accountants in Australia, the Taxation Institute of Australia and the Financial Services Institute of Australasia. |
| **Anthony Battle**<br><br>**Lead Independent Director**<br>*Appointed on 9 September 2005* | Anthony (Tony) Battle gained extensive experience in the banking and finance industry over a period of more than 30 years. During this time he held various executive management, credit committee and director roles with major international and domestic financial institutions. His experience includes the evaluation and funding of numerous major project, structured and corporate financings across a wide range of industry sectors.<br>Tony holds a Bachelor of Commerce degree, is a Fellow of the Australian Institute of Company Directors and an Associate of Chartered Secretaries Australia.<br>Tony is based in Melbourne. |
| **Douglas Clemson**<br><br>**Independent Director**<br>*Appointed on 9 September 2005* | Doug Clemson is the former Finance Director and CFO of Asea Brown Boveri (ABB) where he was responsible for the corporate and project finance needs of the ABB group in Australia and New Zealand. He was instrumental in the establishment of the activities of ABB Financial Services and its participation in the co-development, construction and funding of important power generation, transportation and infrastructure projects in this region.<br>Prior to joining ABB, Doug held senior line management and finance executive positions with manufacturing groups, ACI and Smiths Industries. He is the recent chairman of Redbank Power and director of Powerco NZ. His previous directorships include General and Cologne Reinsurance, Electric Power Transmission Group, ABB Australia, and New Zealand, and Smiths Industries.<br>Doug is a qualified accountant and a Fellow of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors. Doug is based in Sydney. |

| | |
|---|---|
| **<u>Nils Andersen</u>**<br><br>**Independent Director**<br>*Appointed on 9 September 2005* | Nils Andersen worked at Vestas, the Danish wind turbine manufacturer, for over 20 years. Nils was managing director of Vestas-Australia throughout 2003 and 2004, and in this role Nils was also responsible for sales and marketing in the Pacific Region and South Africa.<br>Nils started his career with Vestas as the export manager, responsible for market development worldwide and with a special focus on Indian sub-continent and Asia-Pacific countries. He subsequently held a number of management positions in sales and market development reporting to the CEO and then the board. Nils also held a number of board positions within the Vestas group of companies, and his experience expands across the globe.<br>Nils has also held industry positions such as export trade and international development councils and between 1994 and 1998 he was the vice-president of the European Wind Industry Association. Prior to joining Vestas, Nils worked for FL Smidth (a leading manufacturer in cement plants based in Denmark) in Brazil, South Africa and Denmark.<br>Nils holds a Bachelor of Engineering degree and is a mechanical engineer by training. Nils is based in Denmark. |
| **<u>Warren Murphy</u>**<br>**(Babcock & Brown executive)**<br><br>**Director**<br>*Appointed on 14 April 2005* | Warren Murphy is Head of Australian Energy in the Infrastructure group at Babcock & Brown, based in the Sydney office. Warren has led the development of Babcock & Brown's energy sector capability in Australia and New Zealand. He is also a director of the ASX listed Sydney Gas Limited.<br>Warren has led the development of Redbank, Oakey, NewGen Kwinana, Braemar and Uranquinty power stations, and the co-development of a number of renewable energy projects, including the Alinta, Lake Bonney and Capital wind farms. Warren joined Babcock & Brown in 1997. Prior to joining Babcock & Brown, Warren was a director of the project finance division of AIDC and before that worked at Westpac Banking Corporation.<br>Warren holds a Bachelor of Engineering (Hons) and a Bachelor of Commerce in Accounting and Economics. |
| **<u>Michael Garland</u>**<br>**(Babcock & Brown executive)**<br><br>**Alternate Director for Peter Hofbauer and Warren Murphy**<br>*Appointed on 8 May 2007* | Michael Garland manages the US Infrastructure team of Babcock & Brown.<br>Prior to joining Babcock & Brown in 1986, Michael was a director of the State of California Energy Assessments Office where he was responsible for the implementation of the State Government's environmental and energy policies. Michael also coordinated and oversaw certain design, construction, financing and operations relating to the California State energy facilities.<br>Michael is a graduate of the University of California at Berkeley. Michael is based in San Francisco. |
| **<u>Antonino Lo Bianco</u>**<br>**(Babcock & Brown executive)**<br><br>**Alternate Director for Warren Murphy and Peter Hofbauer**<br>*Appointed on 8 May 2007* | Antonino Lo Bianco manages the European Infrastructure team of Babcock & Brown.<br>Prior to joining Babcock & Brown in 1993, Antonino worked with Nomura International plc as a member of its Italian Corporate Finance Group.<br>Antonino is a graduate in Business Administration from Bocconi University in Milan. Antonino is based in Milan. |

## *Company Secretaries*

The names and particulars of the company secretaries of BBWPS during or since the end of the financial year are set out below.

| *Name* | *Particulars* |
|---|---|
| **David Richardson**<br><br>*Appointed 26 October 2005* | David Richardson joined Babcock & Brown in 2005 as Company Secretary for a number of the Specialised Funds and is principally responsible for the company secretarial function and corporate governance requirements of Babcock & Brown Wind Partners.<br>Prior to joining Babcock & Brown, David was a Company Secretary within the AMP Group, and at various stages was appointed Company Secretary for the AMP Capital Investors, Financial Services and Insurance divisions.<br>David holds a Diploma of Law, Bachelor of Economics and a Graduate Diploma in Company Secretarial Practice. David is a Member of Chartered Secretaries Australia. |
| **John Remedios**<br><br>*Appointed 28 June 2007* | John Remedios joined Babcock & Brown in November 2006 and is principally responsible for the company secretarial function and corporate governance requirements of Babcock & Brown Power.<br>Prior to joining Babcock & Brown, John was a Senior Legal Counsel for AMP Capital Investors and held various company secretarial positions including Company Secretary of AMP Life Limited and Assistant Company Secretary of AMP Limited.<br>John holds Bachelor of Economics and Bachelor of Law (Hons.) degrees from the University of Sydney and is a Member of the Law Society of New South Wales. |

## *Former partners of the audit firm*

No current Directors or Officers of BBWPS have been Partners of PricewaterhouseCoopers at a time when that firm has been the auditor of BBW.

## *Principal activities*

BBWPT holds interests in financial investments and non-controlling interests in wind energy generation assets.

## *Review of operations*

A review of the operations of BBW and the results of those operations for the year ended 30 June 2008 is included in the BBW 2008 Annual Report.

The profit attributable to unitholders for the year amounted to $4,000,000 compared to a profit of $8,151,000 for the prior year. The change in profit is predominantly due to an increase in management fees and a decrease in interest income. Further specific information relating to the operations of BBWPT for the year ended 30 June 2008 is included in the attached Financial Statements and accompanying Notes.

## *Units on issue*

As at 30 June 2008, BBWPT had 868,600,694 units on issue (30 June 2007: 673,070,882). During the financial year BBWPT issued 195,529,812 units (2007: 97,769,916). Further detail regarding the units issued by BBWPT during the financial year are set out in Note 9 to the Financial Statements.

## *Trust assets*

As at 30 June 2008, BBWPT held assets to a total value of $1,050,919,000 (30 June 2007: $843,822,000). Further detail regarding the assets held by BBWPT during the financial year are set out in the Balance Sheet and relevant Notes to the Financial Statements, including the basis for valuation of the assets as disclosed in Note 1.

## *Changes in state of affairs*

During the financial year there was no significant change in the state of affairs of BBWPT other than that referred to in the Financial Statements and accompanying Notes.

## *Subsequent events*

*Sale of Spanish Assets*

On 21 August 2008, BBW agreed to sell its portfolio of operating Spanish wind energy assets with an installed capacity of 420.7MW to Formento de Construcciones y Contratas, S.A. The sale is subject to local authority consents in Spain, which are expected to take approximately three months, with financial close occurring thereafter.

*Proposed New Chairman*

On 26 August 2008, Mr Peter Hofbauer, Chairman of the BBWPS Board, advised the Board of his intention to step down as a Director upon a new independent Chairman being appointed to the Board. The BBWPS Board confirmed that it is their intention to replace Mr Hofbauer with a Babcock & Brown executive once the new independent Chairman is appointed. As at the date of this report, the new independent Chairman has not yet been appointed.

## *Future developments*

Disclosure of information regarding likely developments in the operations of BBWPT in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## *Environmental regulations*

To the best of their knowledge and belief after making due enquiry, the Directors have determined that BBWPS and BBWPT have complied with all significant environmental regulations applicable to BBW's operations.

## *Distributions*

An interim distribution of 7.25 cents per stapled security for the half year to 31 December 2007 was paid on 18 March 2008. BBWPT will also pay a final distribution of 7.25 cents per stapled security for the full year to 30 June 2008 on 18 September 2008. Further details regarding the distributions paid by BBWPT are set out in Note 12 to the Financial Statements.

## *Directors' and Committee Meetings*

Below are the number of BBWPS Directors' meetings and Audit, Risk & Compliance Committee meetings held during the year to 30 June 2008 and the number of meetings attended by each Director. P Hofbauer is Chairman of the BBWPS Board and D Clemson is Chairman of the Audit, Risk & Compliance Committee.

| | **BBWPS Board** | | **Audit, Risk & Compliance Committee** | |
|---|---|---|---|---|
| **Directors** | **Held** | **Attended** | **Held** | **Attended** |
| P Hofbauer | 10 | 10 | 5 | 5 |
| A Battle | 10 | 10 | 5 | 5 |
| D Clemson | 10 | 10 | 5 | 5 |
| N Andersen | 10 | 10 | n/a | n/a |
| W Murphy | 10 | 10 | n/a | n/a |

## *Interests of the Responsible Entity*

The responsible entity of BBWPT does not directly hold any units in BBWPT. As at 30 June 2008, the Babcock & Brown Group and its associates held 96,725,347 units in BBWPT.

### *Remuneration of the Responsible Entity*

The basis of fees paid to BBWPS as responsible entity of BBWPT is set out in Note 14 to the Financial Statements. Under BBWPT's Constitution, BBWPS is entitled to a management fee of 2% per annum of the value of the gross assets of BBW. BBWPS has exercised its right under the Constitution to waive the fee referred to above such that it is paid remuneration of $500,000 per annum, increased for movements in the consumer price index. BBWPT incurred an amount of $542,000 in the year ended 30 June 2008 (2007: $533,000) as remuneration paid to the responsible entity.

### *Directors' security holdings*

Below are the Directors' and Alternate Directors' relevant interests in BBW stapled securities throughout the financial year.

| | Balance<br>1 July 2007 | Acquired<br>during the year | Sold<br>during the year | Balance<br>30 June 2008 |
|---|---|---|---|---|
| P Hofbauer | 3,421,874 | 147,379 | 0 | 3,569,253 |
| A Battle | 32,316 | 5,318 | 0 | 37,634 |
| D Clemson | 140,000 | 0 | 0 | 140,000 |
| N Andersen | 11,109 | 585 | 0 | 11,694 |
| W Murphy | 2,033,708 | 372,533 | 0 | 2,406,241 |
| M Garland[1] | 2,142,000 | 0 | 0 | 2,142,000 |
| A Lo Bianco[1] | 2,142,000 | 0 | 0 | 2,142,000 |

[1] Alternate Directors.

### *Proceedings on behalf of BBW*

No person has applied for leave of the Court to bring proceedings on behalf of BBWPT, or to intervene in any proceedings to which BBWPT is a party, for the purpose of taking responsibility on behalf of BBWPT for all or part of these proceedings. BBWPT was not a party to any such proceedings during the year.

### *Non-audit services*

The Directors are satisfied that the provision of non-audit services, during the year, by the Auditor (or by another person or firm on the Auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of any amounts paid or payable to the Auditor for non-audit services provided during the year by the Auditor are set out in Note 3 to the Financial Statements.

### *Auditor's independence declaration*

BBWPT's Auditor has provided a written declaration under section 307C of the *Corporations Act 2001* that to the best of their knowledge and belief, there have been no contraventions of:

- the Auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- the applicable Australian code of professional conduct in relation to the audit.

The Auditor's independence declaration is attached to this Directors' report.

### *Indemnification and insurance of Officers*

BBWPS has agreed to indemnify all Directors and Officers against losses incurred in their role as Director, Alternate Director, Secretary, Executive or other employee of BBWPT or its subsidiaries, subject to certain exclusions, including to the extent that such indemnity is prohibited by the *Corporations Act 2001* or any other law. The agreement stipulates that BBWPT will meet the full amount of any such liabilities, costs and expenses (including legal fees). BBWPS has not been advised of any claims under any of the above indemnities.

During the financial year BBWPT paid insurance premiums for a Directors' and Officers' liability insurance contract, that provides cover for the current and former Directors, Alternate Directors, Secretaries and Executive Officers of BBWPS. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

### *Rounding*

Pursuant to ASIC Class Order 98/0100, dated 10 July 1998, amounts in the Directors' report and the Financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the Directors pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors of Babcock & Brown Wind Partners Services Limited, the responsible entity of Babcock & Brown Wind Partners Trust:

**Peter Hofbauer**
**Director**

**Warren Murphy**
**Director**

Sydney, 17 September 2008

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

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Facsimile +61 2 8266 9999

## Auditor's Independence Declaration

As lead auditor for the audit of Babcock & Brown Wind Partners Trust for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Babcock & Brown Wind Partners Trust and the entities it controlled during the period.

A J Wilson
Partner
PricewaterhouseCoopers

Sydney
18 September 2008

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## Independent auditor's report to the unitholders of Babcock & Brown Wind Partners Trust

### Report on the financial report

We have audited the accompanying financial report of Babcock & Brown Wind Partners Trust (the Trust) which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Babcock & Brown Wind Partners Trust and the Babcock & Brown Wind Partners Trust Group (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of Babcock & Brown Wind Partners Services Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of Babcock & Brown Wind Partners Services Limited, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

PRICEWATERHOUSECOOPERS

## Independent auditor's report to the unitholders of Babcock & Brown Wind Partners Trust (continued)

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management of Babcock & Brown Wind Partners Services Limited.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Matters relating to the electronic presentation of the audited financial report*

This audit report relates to the financial report of Babcock & Brown Wind Partners Trust (the Trust) for the financial year ended 30 June 2008 included on the Babcock & Brown Wind Partners Trust web site. The directors of Babcock and Brown Wind Partners Services Limited are responsible for the integrity of the Babcock & Brown Wind Partners Trust web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion on the financial report*

In our opinion:

(a) the financial report of Babcock & Brown Wind Partners Trust is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Trust's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report complies with International Financial Reporting Standards as disclosed in Note 1(a)

PricewaterhouseCoopers

PricewaterhouseCoopers

A J Wilson
Partner

18 September 2008

# Income statement
# for the year ended 30 June 2008

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | Note | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Interest income | 2 | 7,248 | 9,161 | 7,248 | 9,161 |
| Share of net profit of associates | 7 | 211 | 3,418 | - | - |
| Operating expenses | 2 | (924) | (1,673) | (924) | (1,668) |
| Management charges | 2 | (2,468) | (1,661) | (2,468) | (1,661) |
| **Profit from operating activities** | | 4,067 | 9,245 | 3,856 | 5,832 |
| Finance costs – net profit attributable to the minority interest | 7 | (67) | (1,094) | - | - |
| **Net profit attributable to the unit holders** | | 4,000 | 8,151 | 3,856 | 5,832 |
| Basic and diluted earnings per unit (cents) | 11 | 0.5 | 1.4 | 0.5 | 1.0 |

The above income statement should be read in conjunction with the accompanying Notes to the financial statements.

# Balance sheet
# as at 30 June 2008

| | Note | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent 2008 $'000 | Parent 2007 $'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 16 | 661 | 337 | 661 | 337 |
| Trade and other receivables | 5 | 805 | 5,039 | 805 | 5,039 |
| **Total current assets** | | 1,466 | 5,376 | 1,466 | 5,376 |
| **Non-current assets** | | | | | |
| Receivables | 5 | 995,133 | 784,337 | 993,917 | 783,121 |
| Investment in associate | 7 | 54,320 | 54,109 | - | - |
| Interests in controlled entities | 6 | - | - | 21,639 | 21,639 |
| **Total non-current assets** | | 1,049,453 | 838,446 | 1,015,556 | 804,760 |
| **Total assets** | | 1,050,919 | 843,822 | 1,017,022 | 810,136 |
| **Current liabilities** | | | | | |
| Trade and other payables | 8 | 888 | 1,020 | 883 | 1,015 |
| **Total current liabilities** | | 888 | 1,020 | 883 | 1,015 |
| **Non-current liabilities** | | | | | |
| Payables | 8 | 494 | 494 | - | - |
| Share of net assets attributable to minority interests | | 29,785 | 29,718 | - | - |
| **Total non-current liabilities** | | 30,279 | 30,212 | - | - |
| **Total liabilities** | | 31,167 | 31,232 | 883 | 1,015 |
| **Net assets** | | 1,019,752 | 812,590 | 1,016,139 | 809,121 |
| **Equity** | | | | | |
| Contributed equity | 9 | 1,003,487 | 800,325 | 1,003,487 | 800,325 |
| Retained profits | 10 | 16,265 | 12,265 | 12,652 | 8,796 |
| **Total equity and net assets attributable to the unit holders** | | 1,019,752 | 812,590 | 1,016,139 | 809,121 |

The above  Balance Sheet should be read in conjunction with the accompanying Notes to the financial statements.

# Statement of changes in equity for the year ended 30 June 2008

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | Note | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| **Total equity at the beginning of the year** | | 812,590 | 702,653 | 809,121 | 700,795 |
| Share of movement in associate's hedge reserve | | - | (708) | - | - |
| Net income recognised directly in equity | | - | (708) | - | - |
| Net profit for the year | | 4,000 | 8,151 | 3,856 | 5,832 |
| **Total recognised income and expense** | | 4,000 | 7,443 | 3,856 | 5,832 |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | |
| Contributions of equity, net of costs | 9 | 306,714 | 166,989 | 306,714 | 166,989 |
| Securities issued as consideration in relation to services | 9 | - | 1,101 | - | 1,101 |
| Distributions paid, net of distribution reinvestment plan | 9 | (103,552) | (65,596) | (103,552) | (65,596) |
| **Total equity at the end of the year** | | 1,019,752 | 812,590 | 1,016,139 | 809,121 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying Notes to the financial statements.

# Cash flow statement
# for the year ended 30 June 2008

| | Note | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent 2008 $'000 | Parent 2007 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit/(loss) for the year | | 4,000 | 8,151 | 3,856 | 5,832 |
| Share of associate's profit (less dividends) | | (144) | (2,324) | - | - |
| Foreign exchange (gain) / loss | | - | 917 | - | 917 |
| Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses: | | | | | |
| (Increase)/decrease in assets: | | | | | |
| Current receivables | | 4,233 | (1,051) | 4,233 | (1,051) |
| Increase/(decrease) in liabilities: | | | | | |
| Current payables | | (4) | 414 | (4) | 409 |
| Net cash provided by/(used in) operating activities | | 8,085 | 6,107 | 8,085 | 6,107 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issues of units, net of costs | | 277,613 | 152,184 | 277,613 | 152,184 |
| Repayment of borrowings | | 636,170 | 299,413 | 636,170 | 299,413 |
| Distributions paid to security holders | | (74,490) | (50,513) | (74,490) | (50,513) |
| Loans advanced to related parties | | (847,054) | (407,773) | (847,054) | (407,773) |
| Net cash provided by financing activities | | (7,761) | (6,689) | (7,761) | (6,689) |
| **Net increase in cash and cash equivalents** | | 324 | (582) | 324 | (582) |
| **Cash and cash equivalents at the beginning of the financial year** | | 337 | 919 | 337 | 919 |
| **Cash and cash equivalents at the end of the financial year** | 16 | 661 | 337 | 661 | 337 |

The above Cash Flow Statement should be read in conjunction with the accompanying Notes to the financial statements.

# Notes to the financial statements for the financial year ended 30 June 2008


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## 1. Summary of accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial report includes separate financial statements for the Babcock & Brown Wind Partners Trust as an individual entity and the consolidated entity consisting of the Babcock & Brown Wind Partners Trust and its subsidiaries.

### (a) Basis of preparation

The general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

*Stapled security*

The shares of Babcock & Brown Wind Partners Limited ("BBWPL") and Babcock & Brown Wind Partners (Bermuda) Limited ("BBWPB") and the units of Babcock & Brown Wind Partners Trust ("BBWPT" or the "Trust") are combined and issued as stapled securities in Babcock & Brown Wind Partners Group ("BBW"). The shares of BBWPL and BBWPB and the units of BBWPT cannot be traded separately and can only be traded as stapled securities.

*Compliance with IFRS*

Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of BBWPT comply with International Financial Reporting Standards ("IFRS").

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the income statement.

## 1. Summary of accounting policies *(cont'd)*

### (b) Principles of consolidation

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of BBWPT as at 30 June 2008 and the results of all subsidiaries for the year then ended. BBWPT and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests results in gains and losses for the Group that are recorded in the income statement. Purchases from minority investments result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the financial results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheets respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of BBWPT.

*(ii) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

Refer to Note 7 for a further explanation of equity accounting of associates.

### (c) Trust Formation

BBWPT was established in Australia on 16 June 2003. On 26 September 2005, the Trust became a registered scheme. On 26 September 2005 Babcock & Brown Wind Partners Services Limited became the responsible entity of the Trust.

## 1. Summary of accounting policies *(cont'd)*

### (d) Trade and other payables

Trade payables and other accounts payable are recognised when the consolidated group becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### (e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated GST unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (f) Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

## 1. Summary of accounting policies *(cont'd)*

### (g) Income tax

Under current legislation, BBWPT is not subject to income tax as unit holders are presently entitled to the income of the Trust.

### (h) Revenue recognition

The Group recognised revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

- Interest income is recognised using the effective interest method.
- Dividend income is recognised when the right to receive payment is established.

### (i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents comprise cash on hand and in banks, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### (j) Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost less impairment. Trade receivables are generally due for settlement within 30 days.

### (k) Contributed equity

Units are classified as equity. Incremental costs directly attributable to the issue of new units or options are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, for example, as the result of a buy-back, those instruments are deducted from equity and the associated units are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### (l) Earnings per unit

Basic earnings per unit is calculated by dividing the profit attributable to unit holders, excluding any costs of servicing equity other than the units, by the weighted average number of units outstanding during the financial year, adjusted for bonus elements in units issued during the year.

Diluted earnings per unit adjusts the figures used in the determination of basic earnings per unit to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary units and the weighted average number of units assumed to have been issued for no consideration in relation to dilutive potential ordinary units.

## 1. Summary of accounting policies *(cont'd)*

### (m) Fair value estimation

The fair value of the financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purpose.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Trust is the current bid price; the appropriate quoted market prices for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Trust uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Trust for similar financial instruments.

### (n) Rounding of amounts

The consolidated entity is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (o) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

## 1. Summary of accounting policies *(cont'd)*

(ii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to assets under construction.

(iii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 10*

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

### (p) Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The Trust makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

*Estimated useful economic life of property, plant and equipment*

The Trust's associate depreciates property, plant and equipment over 25 years. This period of depreciation is utilised for assets that have useful economic lives in excess of 25 years as the life of the project is 25 years and no determination to extend the life of the project has been made at this stage.

## 2. Profit from operations

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2008<br>$'000 | 2007<br>$'000 | 2008<br>$'000 | 2007<br>$'000 |
| Interest income | 7,248 | 9,161 | 7,248 | 9,161 |
| | 7,248 | 9,161 | 7,248 | 9,161 |
| **Profit before income tax has been arrived at after charging the following expenses:** | | | | |
| Operating expenses: | | | | |
| Administration, consulting and legal fees | 924 | 1,673 | 924 | 1,668 |
| | 924 | 1,673 | 924 | 1,668 |
| Management charges: | | | | |
| Base fees* | 2,468 | 1,661 | 2,468 | 1,661 |
| | 2,468 | 1,661 | 2,468 | 1,661 |

* Refer to Note 14 for further details.

## 3. Remuneration of auditor

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2008<br>$ | 2007<br>$ | 2008<br>$ | 2007<br>$ |
| **Assurance services** | | | | |
| ***PricewaterhouseCoopers: Audit services*** | | | | |
| Audit and review of the financial report | 40,152 | 25,543 | 29,400 | 16,500 |

## 4. Key management personnel remuneration

The responsible entity of Babcock & Brown Wind Partners Trust is Babcock & Brown Wind Partners Services Limited (BBWPS).

**Directors and Alternate Directors**

The following were Directors and Alternate Directors of Babcock & Brown Wind Partners Services Limited during the financial year:

| Name | Role |
|---|---|
| P Hofbauer | Chairman and Non-Executive Director |
| A Battle | Lead Independent Director |
| D Clemson | Independent Director |
| N Andersen | Independent Director |
| W Murphy | Non-Executive Director |
| M Garland | Alternate Non-Executive Director for P Hofbauer and W Murphy |
| A Lo Bianco | Alternate Non-Executive Director for W Murphy and P Hofbauer |

**Details of other key management personnel**

In addition to the Directors and Alternate Directors, the following Key Management Personnel (KMP) had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| Name | Role |
|---|---|
| M George | Chief Executive Officer |
| G Dutaillis | Chief Operating Officer |
| G Dover | Chief Financial Officer |
| D Richardson | Company Secretary |

**Security holdings in BBW**

Security holdings of the Directors, Alternate Directors and KMPs, including their personally related parties, in BBW securities over the period 1 July 2007 to 30 June 2008 are set out below.

| | Balance 1 July 2007 | Acquired during the year | Sold during the year | Balance 30 June 2008 |
|---|---|---|---|---|
| P Hofbauer | 3,421,874 | 147,379 | - | 3,569,253 |
| A Battle | 32,316 | 5,318 | - | 37,634 |
| D Clemson | 140,000 | - | - | 140,000 |
| N Andersen | 11,109 | 585 | - | 11,694 |
| W Murphy | 2,033,708 | 372,533 | - | 2,406,241 |
| M Garland | 2,142,000 | - | - | 2,142,000 |
| A Lo Bianco | 2,142,000 | - | - | 2,142,000 |
| M George | 500,000 | - | - | 500,000 |
| G Dutaillis | 565,000 | 42,820 | - | 607,820 |
| G Dover | 10,000 | - | - | 10,000 |
| D Richardson | 5,000 | 3,530 | - | 8,530 |

## 4. Key management personnel remuneration *(cont'd)*

**Key Management Personnel remuneration**

KMPs are not paid by the Trust. Payments made by the Trust to the responsible entity do not include any amounts attributable to the compensation of KMPs.

No BBW securities were granted as remuneration to KMPs during the 2007 and 2008 financial years.
No BBW securities were acquired by KMPs upon the exercise of options during the 2007 and 2008 financial years.
No options were granted over BBW securities to KMPs during the 2007 and 2008 financial years.

**Loans to key management personnel and their personally related entities from BBW**

No loans have been made by BBW to any KMPs or their personally related entities throughout the 2007 and 2008 financial years.

## 5. Trade and other receivables

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| **Current** | | | | |
| Interest receivable | 749 | 4,847 | 749 | 4,847 |
| GST and other tax receivables | 56 | 192 | 56 | 192 |
| | 805 | 5,039 | 805 | 5,039 |
| **Non-current** | | | | |
| Loans to related parties | 993,917 | 783,121 | 993,917 | 783,121 |
| Loans to associates | 1,216 | 1,216 | - | - |
| | 995,133 | 784,337 | 993,917 | 783,121 |

## 6. Changes in the Composition of the Consolidated Entity

There were no changes in the composition of the consolidated entity during the year ended 30 June 2008 and the year ended 30 June 2007.

## 7. Investment in associate

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Investment in associate | 54,320 | 54,109 |

| Name of entity | Principal activity | Country of incorporation | Ownership interest | |
|---|---|---|---|---|
| Walkaway Wind Power Pty Limited | Wind farm | Australia | 17%* | 17%* |

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| **Summarised financial information of associate*** | | |
| Current assets | 5,788 | 13,204 |
| Non-current assets | 68,548 | 63,719 |
| | **74,336** | **76,923** |
| Current liabilities | 3,905 | 6,541 |
| Non-current liabilities | 55,844 | 56,073 |
| | **59,749** | **62,614** |
| **Net assets** | **14,587** | **14,309** |
| **Revenue** | **9,702** | **11,701** |
| **Net profit** | **144** | **2,324** |
| | | |
| **Share of associate's profit*:** | | |
| Share of profit/(loss) before income tax | 573 | 4,953 |
| Income tax expense | (362) | (1,535) |
| Share of associate's profit/(loss) | **211** | **3,418** |
| Less: minority interest | (67) | (1,094) |
| | **144** | **2,324** |

* The ownership interest of 17% is based on voting rights. The voting rights are not consistent with the economic returns which vary over the life of the investment. As at the balance sheet date, BBWPT's share of the economic returns from Walkaway Wind Power Pty Limited was estimated at 32%.

**Dividends received from associate**

During the year, the Trust received no dividends (2007: nil) from its associate.

**Contingent liabilities and capital commitments**

The Trust's share of the contingent liabilities of the associate was $2,584,000 (2007: $2,584,000). This represented a letter of credit. There were no capital commitments or other expenditure commitments of associates.

## 8. Trade and other payables

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent 2008 $'000 | Parent 2007 $'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Trade payables | - | 127 | - | 127 |
| Accrued liabilities | - | 18 | - | 18 |
| Amounts due to related parties | 888 | 875 | 883 | 870 |
| | 888 | 1,020 | 883 | 1,015 |
| **Non-current** | | | | |
| Loans from related parties | 494 | 494 | - | - |
| | 494 | 494 | - | - |

## 9. Contributed equity

| | 2008 No. '000 | 2008 $'000 | 2007 No. '000 | 2007 $'000 |
|---|---|---|---|---|
| **Fully paid units** | | | | |
| Balance at beginning of financial year | 673,071 | 800,325 | 575,302 | 697,831 |
| Capital distributions | - | (103,552) | - | (65,596) |
| Distribution reinvestment plan (i) | 20,042 | 28,974 | 10,044 | 14,932 |
| Lake Bonney Stage 2 (ii) | - | - | 625 | 1,101 |
| Institutional placement (iii) | 4,350 | 7,807 | 87,100 | 155,212 |
| Alinta scheme of arrangement (iv) | 130,148 | 210,424 | - | - |
| Security purchase plan (v) | 26,935 | 46,142 | - | - |
| Capital Wind Farm acquisition (vi) | 14,055 | 24,407 | - | - |
| Transaction costs arising on security issue | - | (11,040) | - | (3,155) |
| Balance at end of financial year | 868,601 | 1,003,487 | 673,071 | 800,325 |

Units entitle the holder to participate in distributions from BBWPT. The holder is entitled to participate in the proceeds on winding up of the Trust in proportion to the number of and amounts paid on the units held.

**(i) Distribution reinvestment plan**

BBW has established a distribution reinvestment plan under which holders of stapled securities may elect to have all or part of their distribution entitlements satisfied by the issue of new stapled securities rather than by being paid in cash. To date, securities have been issued under the plan at a 2.5% discount to the weighted average price of BBW securities on the ASX over the 10 trading days ending on the trading day which is 3 trading days before the date the stapled securities are due to be allotted.

On 14 September 2007, BBW issued 6,267,665 stapled securities at a price of $1.6151 per security in relation to the payment of the final distribution for the year ended 30 June 2007. As part of this re-investment BBWPT issued 6,267,665 units for consideration of $10,093,000.

On 18 March 2008, BBW issued 13,774,279 stapled securities at a price of $1.3748 per security in relation to the payment of the interim distribution for the year ended 30 June 2008. As part of this re-investment BBWPT issued 13,774,279 units for consideration of $18,881,000.

**(ii) Lake Bonney stage 2**

Under an arrangement to provide certain management services to the Lake Bonney stage 2 wind farm, 625,287 fully paid stapled securities, including 625,287 units in BBWPT, were issued to NPP Projects II LLC on 10 April 2007 at a price of $1.778 per stapled security.

## 9. Contributed equity *(cont'd)*

**(iii) Institutional placement**

On 4 May 2007, BBWPT issued 87,100,000 units as part of a combined issuance of 87,100,000 stapled securities pursuant to an institutional placement. Each stapled security was priced at $1.80 and total proceeds amounted to $156,780,000 before costs of $3,187,000. The proceeds for BBWPT arising from the issue were $155,212,000.

In addition to the institutional placement, Babcock & Brown Limited (B&B) agreed that it would subscribe for 4.35 million stapled securities at the same price as the institutional placement conditional upon the approval of BBW securityholders at the Annual General Meeting held on 9 November 2007.

Securityholders approved the issue and on 14 November 2007 BBW issued 4,350,000 stapled securities at a price of $1.80 per stapled security. As part of this issue of stapled securities, BBWPT issued 4,350,000 units for consideration of $7,807,000.

**(iv) Alinta scheme of arrangement**

On 30 March 2007, BBW announced that it was a member of the consortium bidding for the whole of the issued capital of Alinta Limited via a scheme of arrangement.

On 31 August 2007, under the scheme of arrangement, BBWPT issued 128,754,789 units as part of a combined stapled security issuance of 128,754,789 at a price of $1.6214 net of transaction costs of $9.5 million. The gross proceeds attributable to BBWPT units was determined by management as $208,133,000.

On 6 September 2007, BBWPT issued a further 1,392,852 units as part of a final stapled security issuance of 1,392,852 at a price of $1.65 per security to option holders in Alinta Limited as foreshadowed in the Scheme Booklet. The net proceeds attributable to BBWPT units as a result of this issuance was determined by management as $2,291,000. Total gross proceeds from units issued as part of the scheme were $210,424,000 with associated transaction costs of $9,500,000.

**(v) Security purchase plan**

On 18 September 2007, BBW announced a Security Purchase Plan enabling existing shareholders to acquire up to $5,000 in value of additional BBW securities at a discount to the market price. Pursuant to this plan, BBWPT issued 26,935,224 units as part of a combined issue of 26,935,224 stapled securities on 24 October 2007 at a price of $1.7188 per security. The proceeds received by BBWPT amounted to $46,142,000.

**(vi) Capital wind farm**

On 20 December 2007, BBWPT issued 7,294,836 units as part of a combined issuance of 7,294,836 stapled securities at a price of $1.7766 per security as part consideration for the acquisition of the Capital wind farm. Pursuant to the Sale and Purchase Agreement a further 6,760,167 stapled securities (6,760,167 units) were issued on 3 January 2008 at a price of $1.7041 per security. The proceeds attributable to BBWPT for the issue of units as part of the acquisition of the Capital wind farm were $12,921,000 and $11,486,000 respectively.

## 10. Retained earnings

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Balance at beginning of financial year | 12,265 | 4,114 | 8,796 | 2,964 |
| Net profit/ (loss) attributable to unit holders | 4,000 | 8,151 | 3,856 | 5,832 |
| Balance at end of financial year | 16,265 | 12,265 | 12,652 | 8,796 |

## 11. Earnings per unit

| | Consolidated 2008 | Consolidated 2007 | Parent 2008 | Parent 2007 |
|---|---|---|---|---|
| Basic and diluted earnings per unit (cents) | 0.5 | 1.4 | 0.5 | 1.0 |
| Earnings used in calculation of basic and diluted earnings per unit to unit holders ($'000) | 4,000 | 8,151 | 3,856 | 5,832 |
| Weighted average number of units on issue used in calculation of earnings per unit ('000) | 818,301 | 594,227 | 818,301 | 594,227 |

## 12. Distributions paid

| | 2008 Cents per security | 2008 Total $'000 | 2007 Cents per security | 2007 Total $'000 |
|---|---|---|---|---|
| **Ordinary securities** | | | | |
| Final distribution in respect of 2007 year of 6.25 cents per stapled security (2007: 5.1 cents) paid in September 2007 (2007: September 2006), 100% tax deferred from BBWPT's contributed equity | 6.25 | 42,067 | 5.10 | 29,340 |
| Interim distribution in respect of 2008 year of 7.25 cents (2007: 6.25 cents) per stapled security paid in March 2008 (2007: March 2007), 100% tax deferred (2007: 100% tax deferred) | 7.25 | 61,485 | 6.25 | 36,256 |
| | | 103,552 | | 65,596 |
| Distributions paid in cash or satisfied by the issue of new stapled securities under the Distribution Reinvestment Plan during the year ended 30 June 2008 and the year ended 30 June 2007 were as follows: | | | | |
| Paid in cash | | 74,490 | | 50,513 |
| Satisfied by the issue of stapled securities | | 29,062 | | 15,083 |
| | | 103,552 | | 65,596 |

On 28 August 2008, the board of directors of BBW declared a final distribution in respect of the year ended 30 June 2008 of 7.25 cents per stapled security (2007: 6.25 cents), 100% tax deferred. The amount that will be paid on 18 September 2008 (2007: 14 September 2007) will be $62,974,000 (2007: $42,067,000). As the distribution was declared subsequent to 30 June 2008 no provision has been included as at 30 June 2008.

## 13. Segment information

The principal activities of the consolidated entity during the period were to lend and manage funds to entities carrying on wind farm businesses. During the year ended 30 June 2006, the Trust also acquired a non-controlling interest in entities that carry on wind farm businesses. These activities were based in Australia.

## 14. Related party disclosures

### (a) Equity interests in related parties

**Equity interests in subsidiaries**

Details of the percentage ownership held in subsidiaries are disclosed in Note 15 to the financial statements.

**Equity interests in associate**

Details of interest in associate are disclosed in Note 7 to the financial statements.

### (b) Key management personnel disclosures

Details of key management personnel remuneration are disclosed in Note 4 to the financial statements.

### (c) Other related party transactions

**Transactions involving other related parties**

Receivables from related parties are disclosed in Note 5. Payables to related parties are disclosed in Note 8. Transactions were made on normal commercial terms and conditions and under normal market rates.

**Custodian, Responsible Entity and Manager fees and costs**

Under the terms of the Custodian Agreement with Babcock & Brown Asset Holdings Pty Limited (“BBAH”), which is a subsidiary of Babcock & Brown Limited, 0.0125% of the gross asset value of BBWPT is payable as custodian fees. During the year ended 30 June 2008, fees paid or payable to the Custodian by the Group were $132,000 (2007: $94,000).

Babcock & Brown Wind Partners Services Limited (“BBWPS”) acts as the responsible entity of BBWPT. Under BBWPT’s constitution, BBWPS is entitled to a management fee of 2% per annum of the value of the gross assets of BBW. BBWPS has exercised its right under the constitution to waive the fee referred to above such that it is paid remuneration of $500,000 per annum, increased for CPI. BBWPT incurred an amount of $542,000 (2007: $533,000) in the year ended 30 June 2008.

A management agreement was previously entered into with Babcock & Brown Infrastructure Management Pty Limited (“BBIM”), a subsidiary of Babcock & Brown Limited. During the year ended 30 June 2007, this agreement was novated from BBIM to Babcock & Brown Wind Partners Management Pty Ltd (“BBWPM” or the “Manager”), which is another subsidiary company of Babcock & Brown Limited. Under the management agreement between BBWPM and BBWPS (as responsible entity of BBWPT), a base fee of 0.2% per annum of the net investment value of BBW at the end of each quarter is payable. During the year ended 30 June 2008, BBWPT incurred base fees of $2,468,000 (2007: $1,661,000).

**Transactions with associate**

Ownership interests in, and distributions received from, associate are set out in Note 7.

**Other related party transactions**

Companies within the Babcock & Brown Limited group held 96,725,347 (2007: 81,162,000) stapled securities in BBW and during the year ended 30 June 2008 received $11,862,000 (2007: $9,212,000) as distributions on stapled securities held.

During the year ended 30 June 2008, BBWPT charged interest of $6,563,000 (2007: $8,432,000) on certain loans receivable from BBWPL. The interest rate was 6.25% (2007: ranged between 5.25% and 5.75%).

## 14. Related party disclosures *(cont'd)*

Related party balances

At the year end BBWPT owed the following amounts to various subsidiaries of Babcock & Brown and Babcock & Brown Wind Partners Limited:

| | |
|---|---|
| Babcock & Brown Wind Partners Management Pty Ltd | $664,000 |
| CS Walkaway Pty Limited | $178,000 |
| NPP Projects V LLC | $158,000 |
| B&B Walkaway Pty Limited | $158,000 |
| Babcock & Brown Wind Partners Services Limited | $136,000 |
| Babcock & Brown Asset Holdings Pty Limited | $34,000 |
| Babcock & Brown Wind Partners Limited | $5,000 |

At the year end BBWPT was owed the following amounts by Babcock & Brown Wind Partners Limited and its various subsidiaries:

| | |
|---|---|
| Babcock & Brown Wind Partners Limited | $950,232,000 |
| Babcock & Brown Wind Partners (Bermuda) Limited | $715,000 |
| Walkaway Wind Power Pty Limited | $1,215,000 |
| BBWP (US) 2 Pty Limited | $30,009,000 |
| BBWP CWF Pty Limited | $12,960,000 |

### (d) Parent entities

The parent entity in the consolidated entity is BBWPT.

The ultimate Australian parent entity is BBWPT.

The ultimate parent entity is BBWPT.

## 15. Subsidiary entities

| Name of entity | Country of incorporation | Ownership interest<br>2008<br>% | <br>2007<br>% |
|---|---|---|---|
| **Parent entity** | | | |
| Babcock & Brown Wind Partners Trust | Australia | | |
| **Subsidiaries of BBWPT** | | | |
| B&B Walkaway Trust | Australia | 100% | 100% |
| CS Walkaway Trust | Australia | 100% | 100% |
| Renewable Power Ventures Investment Trust | Australia | 68% | 68% |

## 16. Notes to the cash flow statement

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| **Reconciliation of cash and cash equivalents** | | | | |
| For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows: | | | | |
| Cash and cash equivalents | 661 | 337 | 661 | 337 |
| | 661 | 337 | 661 | 337 |

## 17. Financial risk management

The Group is exposed to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk. The principal financial instruments that give rise to this risk comprise cash, receivables, & intercompany payables and receivables.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group's treasury policy provides a framework for managing the financial risks of the Group. The key philosophy of the Group Treasury policy is risk mitigation. The Group Treasury policy specifically does not authorise any form of speculation.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, and other price risks, and aging analysis for credit risk.

There have been no changes to the type or class of financial risks the Group is exposed to since the prior year.

### (a) Market risks

**Interest rate risks**

BBWPT receives interest on certain loans made to BBWPL. It is exposed to interest rate changes on the interest it receives from these loans. BBWPT also has a small amount of cash balances. Interest earnings on these cash balances are affected when interest rates move.

**Sensitivity**

The sensitivity to interest rate movement of net profit before tax and equity have been determined based on the exposure to interest rates at the reporting date. A sensitivity of 100 basis points has been selected. The 100 basis points sensitivity is deemed to be flat across the yield curve and is a reasonable estimate of movement based on current long term and short term interest rates.

**Consolidated & Parent Entity**

| **2008**<br>**AUD $'000** | | | **AUD**<br>**+100 bps** | **AUD**<br>**-100 bps** |
|---|---|---|---|---|
| **Impact on income statement** | | | | |
| Cash | AUD | 661 | 7 | (7) |
| Interest bearing loans | AUD | 54,755 | 548 | (548) |

| **2007**<br>**AUD $'000** | | | **AUD**<br>**+100 bps** | **AUD**<br>**-100 bps** |
|---|---|---|---|---|
| **Impact on income statement** | | | | |
| Cash | AUD | 337 | 3 | (3) |
| Interest bearing loans | AUD | 155,324 | 1,553 | (1,553) |

## 17. Financial risk management *(cont.)*

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Trust.

BBWPT does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents BBWPT's maximum exposure to credit risk.

| **Consolidated Entity** | **Within credit terms $'000** | **Past due but not impaired $'000** | **Impaired $'000** | **Description** |
|---|---|---|---|---|
| **2008** | | | | |
| Bank deposits | 661 | - | - | Banks are investment grade or above |
| GST receivable | 56 | - | - | Due from the Australian Government |
| Interest receivable related parties | 749 | - | - | Due from members of the consolidated Group |
| Loans to related parties | 993,917 | - | - | Due from members of the consolidated Group |
| Loans to associates | 1,216 | - | - | Due from Walkaway Wind Power Pty Ltd |
| | 996,599 | - | - | |
| **2007** | | | | |
| Bank deposits | 337 | - | - | Banks are investment grade or above |
| GST receivable | 192 | - | - | Due from the Australian Government |
| Interest Receivable related parties | 4,847 | - | - | Due from members of the consolidated Group |
| Loans to related parties | 783,121 | - | - | Due from members of the consolidated Group |
| Loans to associates | 1,216 | - | - | Due from Walkaway Wind Power Pty Ltd |
| | 789,713 | - | - | |

| **Parent Entity** | **Within credit terms $'000** | **Past due but not impaired $'000** | **Impaired $'000** | **Description** |
|---|---|---|---|---|
| **2008** | | | | |
| Bank deposits | 661 | - | - | Banks are investment grade or above |
| GST receivable | 56 | - | - | Due from the Australian Government |
| Interest receivable related parties | 749 | - | - | Due from members of the consolidated Group |
| Loans to related parties | 993,917 | - | - | Due from members of the consolidated Group |
| | 995,383 | - | - | |
| **2007** | | | | |
| Bank deposits | 337 | - | - | Banks are investment grade or above |
| GST receivable | 192 | - | - | Due from the Australian Government |
| Interest Receivable related parties | 4,847 | - | - | Due from members of the consolidated Group |
| Loans to related parties | 783,121 | - | - | Due from members of the consolidated Group |
| | 788,497 | - | - | |

## 17. Financial risk management *(cont.)*

### (c) Liquidity risks

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below sets out the Group's financial liabilities at balance date and places them into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flow.

**Consolidated Entity**

| **2008** | **Up to 12 months $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total contractual cash flows $'000** |
|---|---|---|---|---|
| Trade Payables | - | - | - | - |
| Amounts due to related parties | 888 | 494 | - | 1,382 |

| **2007** | **Up to 12 months $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total contractual cash flows $'000** |
|---|---|---|---|---|
| Trade Payables | 127 | - | - | 127 |
| Amounts due to related parties | 875 | 494 | - | 1,369 |

**Parent Entity**

| **2008** | **Up to 12 months $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total contractual cash flows $'000** |
|---|---|---|---|---|
| Trade Payables | - | - | - | - |
| Amounts due to related parties | 883 | - | - | 883 |

| **2007** | **Up to 12 months $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total contractual cash flows $'000** |
|---|---|---|---|---|
| Trade Payables | 127 | - | - | 127 |
| Amounts due to related parties | 870 | - | - | 870 |

### Capital Risk Management

The Group and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to securityholders, return capital to securityholders, issue new securities or sell assets to reduce debt.

The Board of Directors review the capital structure, and as part of this review, consider the cost of capital and the risks and rewards associated with each class of capital.

## 18. Subsequent events

On 21 August 2008, BBW agreed to sell its portfolio of operating Spanish wind energy assets with an installed capacity of 420.7MW to Formento de Construcciones y Contratas, S.A. The sale is subject to local authority consents in Spain, which are expected to take approximately three months, with financial close occurring thereafter.

# Directors' declaration

In the opinion of the directors of Babcock & Brown Wind Partners Services Limited ("BBWPS"):

(a) the financial statements and notes set out on pages 11 to 35 are in accordance with the *Corporations Act 2001,* including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Trust's and consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

The directors have been provided with the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors of BBWPS pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors:

| | |
|---|---|
| **Peter Hofbauer** | **Warren Murphy** |
| **Director** | **Director** |

Sydney, 17 September 2008

# Corporate information

**Registered Office of the Responsible Entity**

Level 23

The Chifley Tower

2 Chifley Square

Sydney NSW 2000

**Security Register**

Link Market Services Limited

Level 12

680 George Street

Sydney NSW 2000

Babcock & Brown Wind Partners stapled securities are listed on the Australian Securities Exchange and trade under the code “BBW”.

**Solicitor**

Freehills Lawyers

MLC Centre

19 Martin Place

Sydney NSW 2000

**Auditor**

PricewaterhouseCoopers

Darling Park Tower 2

201 Sussex Street

Sydney NSW 2000